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Foreign Investment in the U.S. Food and Agricultural System:

An Overview

Kenneth R. Krause

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ABSTRACT

Foreign direct investment in U.S. firms and real estate about doubled between 1973 and 1978. In response, several studies were commissioned by the Executive Branch to ascertain the level and influence of foreign investment and to require reporting of foreign investment in U.S. agricultural land. Most of the increase in direct investment came from Western Europe and Canada, not from oil-exporting countries. Foreign investors do not have dominant control of firms throughout the input, production, marketing, and processing of any one food item.

Keywords: Foreign investment, U.S. agriculture, food and fiber system.

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PREFACE

This report documents the extent of foreign investment in the U.S. food and agricultural system as of late 1974. That period was selected for study because the Organization of Petroleum Exporting Countries (OPEC) had just made a large increase in the price of its oil and was expected to receive increasing sums of money that its members would be seeking to invest. The oil price increase was associated with investors from other countries looking to diversify their investments into other countries. The appeal of the United States in the midseventies as a haven for foreign investment was due to the strength and stability of the Nation compared with other opportunities for investment.

The primary purpose of the detailed documentation of foreign investment presented in this report is to serve as a benchmark for future research that may determine the growth or decline of foreign investment and the specific sectors where that growth or decline occurs. Congress may be able to use the information contained here as a guide if the need should arise to consider further regulation of foreign investment in the U.S. economy. The initial anxiety over the size of the OPEC surpluses and their effect if invested in the U.S. market prompted two congressional studies (see appendix 1) into the extent of foreign investment. Since 1974, however, successive price increases by OPEC have dwarfed all but the largest projections that were made of those surpluses. OPEC's surplus for 1980 alone was estimated at $110 billion as this report goes to press; that figure is 20 times larger than OPEC's 1978 surplus.

Since the time that most of this report was prepared (in the 1976-78 period), and particularly in late 1979 and continuing into early 1980, the economic situation changed dramatically: imported oil is now nearly half of total U.S. consumption; retail prices of oil-based products are frequently increased as a result of price increases by foreign suppliers, decontrol of domestic oil prices, and additional Federal taxes on oil and gasoline; inflation in the first 2 months of 1980 rose at an annual rate of 18 percent; and the bond market is in disarray. Such developments and the Government's reactions to them have tended to undermine some of the confidence of both domestic and foreign investors in our economy's stability and its potential for continued growth.

Confidence in the economy as a whole, however, seems not to have been eroded as much as might have been expected. Most investors still appear to regard the United States as a good place to invest. The dollar is still the major currency in international trade and has recently been gaining in value relative to other currencies. The U.S. food and agricultural system, in particular, continues to be valued for its productive capacity and its potential importance in supplying food needs of other countries, as well as in supplying technical know-how that can be applied in other countries.

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SUMMARY

Foreign investment in the United States including the food system and agriculture increased sharply after 1973. Foreigners held about $95 billion of U.S. corporate and Government securities in 1976, up from about $40 billion in 1974 and $14.3 billion in 1961. Foreigners held an additional estimated $40.8 billion in controlling interests in U.S. companies in 1978, up from $26.5 billion in 1974 and $6.6 billion in 1959.

The increase in foreign investment seems to have been galvanized not by the surplus of funds in oil-exporting countries, but by the stability of the U.S. political and economic system, growth in the U.S. markets, and prospects of increasing property values in the United States.

Despite the rapid growth of foreign investment, the U.S. Government affirmed, after reexamination, its longstanding policy of remaining neutral toward foreign investment in all sectors of the U.S. economy. The laws are adequate that prohibit foreign ownership of firms in certain activities and foreign takeover of firms and industries critical to national security.

Agriculture and the fiber and food system are potentially attractive investment sectors because of the growing worldwide demand for food. New data collected under the provisions of the Foreign Investment Study Act of 1974 revealed that foreign investment in the U.S. food system was important but was not the largest class of foreign investment in the Nation. Foreigners' equity totaled about $4.7 billion in U.S. food and fiber system, about 12 percent of total foreign investment in the country. Foreigners controlled about 950 U.S. food and fiber firms with assets of about $21 billion.

The data revealed little about foreign ownership of agricultural land. Most food system investments other than in agricultural land were made by multinational firms. Farm real estate ownership by nonresident aliens was not significant and was estimated at less than half of 1 percent of all U.S. farm real estate. The ownership was not concentrated in any one area or in any one commodity. In terms of land parcels most of the investment in land has apparently been made by individual aliens and small partnerships and syndicates. However, the bulk of the total investment in land was by a few large companies; mostly in timber holdings.

The data collected under the 1974 Act are to be used as benchmarks to assess future amounts and rates of foreign investment. The potential for continuing foreign investment was significant enough that the Congress enacted the International Investment Survey Act of 1976, which requires periodic benchmark and analytical studies of foreign investment.

Continuing concern about foreign purchase of agricultural land has prompted several special studies since 1976 and resulted in enactment of the Agricultural Foreign Investment Disclosure Act of 1978. It requires that foreign owners of agricultural land in the United States identify themselves and report their holdings to the U.S. Department of Agriculture.

Foreign Investment in the U.S. Food and Agricultural System: An Overview

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INTRODUCTION

The rapid increase in oil prices in the early seventies created concern in the United States about the potential for a large increase in foreign investment. The Congress legislated that studies be conducted to determine the amount of foreign investments. The sole benchmark study (and followup work) completed between 1974 and 1978 concluded that foreign investment, although increasing, had not reached a level that dominated or threatened to dominate any sector of the Nation's economy. This report summarizes the status of foreign investment in the U.S. food system, including agriculture, in the midseventies and highlights the results of ensuing governmental studies and actions.

Certain industries in the United States, with food production among the more important, abruptly became more attractive investment targets for foreign investors. While the increase in oil prices heavily influenced international investment decisions, unexpected developments in the food situation played a significant part also. Worldwide food shortages and rapid increases in food prices focused attention on the superior productivity of the U.S. food and agricultural system and accented the investment potentials of these sectors. Shorter supplies of and higher prices for food also induced considerable domestic anxiety about the capacity of the U.S. food system to meet the food requirements of the American people. At the same time, apprehension over the possibility that foreigners might buy and control crucial amounts of the food system, especially agriculture, generated concern over the Nation's food security.

While the issue of foreign investment in the food system did not produce panic, anxiety over its potential, along with concerns about foreign holdings in other parts of the economy, did gain sufficient momentum and magnitude to initiate Governmental debate and inquiry at the national level. The Administration set out to review U.S. policies toward foreign investment in all sectors of our economy and Congress passed the Foreign Investment Study Act of 1974, which authorized Federal studies on the extent and nature of foreign investment in the United States.

Those studies and subsequent investigations, however, failed to fully answer questions about whether future governmental control of foreign investment will be necessary and did not spotlight the type of governmental response that would be most effective in controlling foreign investment into the country. As a result, the issue remains controversial and policymakers are still groping for clear answers to the following kinds of questions:

Should prior approval of foreign investment in the U.S. food system be required?

How would any limits on the Nation's traditionally neutral policy toward foreign investment affect the various sectors of the domestic and international economy?

What information and analysis and in what detail and frequency should be required on international capital flows? What will it cost?

FOREIGN INVESTMENT IN HISTORICAL PERSPECTIVE

Foreign investment in U.S. industry is as old as the settlement of the Nation. Several foreign companies, such as the British East India Co., the Plymouth Co., and the Virginia Co., controlled by British and Dutch interests, played an important role in that settlement. They were involved in farming, fur trading, fishing, shipbuilding, and whaling. The railroads that moved into the West were likewise financed by foreign money. Some of the early contributions of foreign investors became masked by the fact that the original founders of enterprises or their successors frequently settled in the country and became citizens. Other foreign-owned enterprises were sold to U.S. citizens as domestic industries became large enough to purchase or merge with them.

A significant difference from the character of earlier foreign investment is that foreign investors and their employees in more recent times have usually not immigrated to the United States. Foreigners and foreign firms have, however, developed technology and continued to invest new money in, as well as reinvested earnings from, their U.S. operations. Modern foreign investments in U.S. industrial firms are predominantly made by large firms, much like U.S. firms that invest in other countries. Individuals, small syndicates, and foreign governments tend to invest in financial instruments that do not give control of the enterprise. Individuals and syndicates also invest in the smaller real estate units.

The following sections describe the level of foreign investment in the United States between 1937 and 1974. Foreign investors include U.S. nationals residing abroad and exclude foreign nationals residing in the United States. The U.S. Government distinguishes between two types of foreign investment: direct and portfolio. The U.S. Department of Commerce is responsible for obtaining data and analyzing the amount of direct investment and the U.S. Department of the Treasury is responsible for portfolio. Foreign direct investment currently is defined as a foreign investor controlling, directly or indirectly, 10 percent or more of a corporation's voting securities or an equivalent interest in an unincorporated business.

Foreign portfolio investment currently refers to foreign investment in the securities of U.S. companies that does not involve any significant influence on the management of the enterprise. Foreign portfolio investment includes all securities of U.S. corporations including stocks, bonds, and other evidence of ownership or long-term indebtedness held by a foreign person, firms, or Government owning less than 10 percent of the voting securities of a corporation. Foreign portfolio ownership also includes the interest of limited partners in a partnership, investment certificates, and evidence of ownership or indebtedness of noncorporate enterprises.

Direct Investment

Records of the amount of foreign investment were begun in about 1937. Table 1 shows that the book value of foreign direct investment nearly doubled from 1937 to 1950 and again from 1950 through 1959. 1/ The largest increase occurred from 1959 through 1974, from $6.6 billion to $26.5 billion, although some of the increase is due to the less restrictive definition used in 1974 (footnote 2, table 1). The compound annual rate of change was about 5.75 percent annually between 1959 and 1974. Foreign investment in trade of

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1/ Much of the descriptive material through 1961 in this section draws on a major report on foreign investment prepared by the U.S. Department of Commerce (39) and analysis of the data in a Ph.D. thesis (33). (Underscored numbers in parentheses refer to sources cited in the Bibliography beginning on p. 48.) Aggregate data for 1974 were obtained from reports prepared by the Department of Commerce and Treasury and submitted to the Congress under the Foreign Investment Study Act of 1974. Specification of the data and food and agriculture analysis are covered in the following section on the 1974 Foreign Investment Study Act.

Table 1--Value of foreign direct investment, number of U.S. affiliates of foreign firms, and rates of change, selected years, 1937-74

Item	1937 1/	1950 1/	1959 1/	1974 2/	Compound annual rates of change 3/ 1937-59	1959-74
	Million dollars				Percent	
Agriculture, forestry, and fisheries	NA	NA	34	4/39	NA	-2.75
Manufacturing	729	1,138	2,471	8,242	1.75	4.50
Trade	119	NA	614	4,578	3.75	10.50
Other sectors	NA	NA	3,485	5/13,692	1.75	5.50
Total	1,882	3,391	6,604	26,512	2.00	5.75
	U.S. affiliates				Percent	
Agriculture, forestry, and fisheries	NA	NA	NA	104	NA	NA
Manufacturing	NA	NA	251	1,155	NA	10.75
Trade	NA	NA	442	2,051	NA	10.75
Other sectors	NA	NA	447	2,674	NA	12.50
Total	NA	NA	1,170	5,984	NA	11.50

NA = Not available.
1/ Data based on 25 percent or more foreign ownership.
2/ Data based on 10 percent or more foreign ownership.
3/ Adjusted by the U.S. implicit GNP deflator.
4/ Estimated by Nellis (see below).
5/ Includes agriculture, forestry, and fisheries.

Sources: Data for 1937 from Foreign Long-Term Investments in the United States, 1937-39, U.S. Dept. Comm., 1937. Data for 1950 and 1959 by Samuel Pizer and Zalie V. Warner, Foreign Business Investments in the United States, A Supplement to the Survey of Current Business, Balance of Payments Div., Office of Business Econ., U.S. Dept. Comm., 1962. Data for 1974 from Foreign Direct Investment in the United States, Vol. II, report of the Secretary to the Congress, U.S. Dept. Comm., Apr. 1976. Compound rates of change based on data by Richard E. Nellis, Jr., Determinants of Direct Private Foreign Investment in the Manufacturing Sector of the U.S. Food System, Ph. D. diss., Pa. State Univ., Dept. of Econ. and Rural Sociology, 1977.

all types was increasing annually at a much greater rate than the average for all sectors.

The number of U.S. affiliates of foreign firms also showed a major increase between 1959 and 1974: an increase of over 4,800 affiliates from a base of about 1,200 in 1959. The annual compound rate of increase in numbers was about 11.5 percent with small deviations from the average among the various sectors.

Net sales of U.S. affiliates of foreign investors showed a major increase, from $12.4 billion in 1959 to about $135.5 billion in 1974 (table 2). This is an average annual compound rate of over 13 percent.

Europe was the principal source of foreign direct investments in the United States from 1937 through 1959, accounting for about two-thirds of the total (table 3). European investors probably accounted for an even larger percentage in earlier years although actual data are not available (39). Canadian investments made up most of the remaining one-third of foreign direct investment during the 1937 through 1959 period with other areas contributing relatively little to the total.

At the end of 1974, the United Kingdom, Canada, and the Netherlands had the largest direct investment in the United States; each accounted for about one-

Table 2--Net sales of U.S. affiliates of foreign firms, and rates of change, 1959 and 1974

Sector	1959	1974	Compound annual rate of change 1959-74
	---Million dollars---		Percent
Agriculture, forestry, and fisheries	58	365	9.00
Manufacturing	5,131	31,301	8.75
Trade	4,291	72,826	16.50
Other sectors	2,873	31,020	13.00
Total	12,353	1/135,512	13.25

1/ Excludes finance, insurance, and real estate which totaled $11,259 million for total net sales of $146,771 million for all U.S. affiliates of foreign firms.

Source: Data for 1959 by Pizer, Samuel, and Zalie V. Warner, Foreign Business Investments in the United States, A Supplement of the Survey of Current Business, Balance of Payments Div., Off. of Business Econ., U.S. Dept. Comm., 1962. Data for 1974 from Foreign Direct Investment in the United States, Vol. II, report of the Secretary to the Congress, U.S. Dept. Comm., Apr. 1976. Compound rates of change based on data by Nellis, Richard E., Jr., Determinants of Direct Private Foreign Investments in the Manufacturing Sector of the U.S. Food Systems, unpublished Ph.D. thesis, Pa. State Univ., Dept. Econ. and Rural Sociology, 1977.

Table 3--Value of foreign direct investment in the United States by selected countries and regions, selected years, 1937-74

Country or region	1937	1950	1959	1974
	Million dollars			
United Kingdom	833	1,168	2,167	5,714
Canada	463	1,029	1,896	5,177
Netherlands	179	334	892	4,704
Switzerland	74	348	716	2,002
Germany	1/	1/	1/	1,562
Belgium	71	1/	153	506
France	57	1/	161	1,145
Sweden	30	1/	154	478
Japan	41	2/	80	131
Italy	12	1/	58	216
Other European countries	26	377	67	520
Other regions 3/	41	134	260	4,357
Australia, New Zealand, and South Africa				20
Latin America				2,438
Middle East				1,768
Other Africa, Asia, and Pacific				130
Total all countries	1,882	3,391	6,604	26,512

1/ Included in other European countries.
2/ Included in other regions.
3/ Data for individual countries not compiled for 1937, 1950, and 1959.

Sources: Data for 1937 through 1959 from Foreign Business Investment in the United States, A Supplement to the Survey of Current Business, Balance of Payments Div., Off. of Business Economics, U.S. Dept. Comm., 1962. Data for 1974 from Foreign Direct Investment in the United States, Vol. II, report of the Secretary to the Congress, U.S. Dept. of Comm., April 1976.

fifth of the total. They were followed by South Africa with about 9 percent, Latin America with about 7 percent (most of these investments from Caribbean-based holding companies), and the Middle East with 7 percent (mostly due to one government's participation in a U.S.-incorporated petroleum company with operating assets in that country). 2/ Switzerland had 7.5 percent, Germany 6 percent, other countries in the European Economic Community 8 percent, other European countries 2 percent, and all other countries not including Japan, 7 percent. Japan had about 1

2/ The investing government was not identified in the Department of Commerce data.

percent--much lower than was commonly thought; the explanation is that Japanese affiliates in the United States had substantial outstanding loans to their parent companies which largely offset the parent companies' investments in their U.S. affiliates.

Portfolio Investment

Most foreign investment since the turn of the century has been of the portfolio type. Foreign holdings up to 1914 were concentrated in railroad bonds amounting to $2.4 billion, which was about double the amount of direct investment. Foreign direct investments were about $1 billion in 1919 and portfolio investments exceeded $2 billion. By 1929, direct investment had increased slightly while portfolio investments had nearly doubled over the decade. These portfolio investments were primarily in various types of corporate stocks whose market prices were rapidly increasing. The value of foreign portfolio investment in the United States changed little between 1929 and 1950. Foreign investors incurred heavy losses in market values during the thirties and did some liquidating during the forties. Direct investment between 1929 and 1950 increased from over $1 billion to $3.4 billion.

Portfolio investment in the United States increased greatly after 1950. A gradual relaxation of controls on international capital transfers from the major European financial centers caused alien stock holdings to quadruple to $11.7 billion by 1961. Alien holdings of bonds, real estate, and miscellaneous loans totaled an estimated $2.6 billion at the end of 1961.

Alien holdings again rose dramatically between 1961 and 1974, when aliens held about $25 billion in stocks of U.S. corporations and $42 billion of debt of U.S. businesses and governmental entities. About $8 billion of that was in corporate bonds, and $25 billion in U.S. Government debt instruments.

Inward Investment Appraisal Following Oil Price Increases

The United States has generally been receptive to investment by aliens. The sudden jump in oil prices, however, in 1974 by the Organization of Petroleum Exporting Countries (OPEC) prompted an analysis of the potential investable surpluses and a review of U.S. policy toward alien investment.

Several studies were made in 1974 and 1975 of the possible size of the OPEC surpluses through the mideighties which could be invested in the United States and other countries (74). The first two studies projected very large surpluses. In April of 1974, the Organization for Economic Cooperation and Development projected the surplus at $225 billion in 1980 (1974 dollars). The projection was increased substantially when the World Bank, in July of 1974, projected a surplus of $653 billion in 1980 in current dollars ($400 billion in 1974 dollars) and a surplus of $1,206 billion in 1985 in current dollars. The World Bank estimated that the size of the surplus in 1974 would be slightly over $60 billion.

These first projections of extremely large surpluses were tempered with a round of much lower projections by a number of institutions and individual economists in the first part of 1975. Ten different projections to 1980 ranged from a low of $22 billion to a high of $449 billion in current dollars or a low of $14 billion to a high of $286 billion in constant 1974 dollars (74). The 1985 surpluses were projected to be about the same size as the 1980 amounts. That projection assumed that OPEC members with surpluses would have their domestic development program moving ahead at a sufficient rate to use oil export income plus accumulating interest and earnings from earlier investments.

A summary study put the size of the surpluses in perspective by observing that they would account for only about 7 percent of the expected $3.8 trillion value of all stocks, bonds, and short-term securities in the major national and international financial markets (74). The U.S. share of the value of all stocks, bonds, and short-term securities was estimated at $2.7 trillion. If the members of OPEC invested 20 percent of their surpluses in the United States, they would own 2 percent or less of the U.S. total by 1980. In some other countries with much smaller economies, the OPEC investments could equal perhaps 20 percent of the total value of stocks, bonds, and short-term securities by 1980.

The range of the 10 projections and an assessment of their impacts was used for policymaking purposes. While the surpluses were large enough to be of more than passing concern, they appeared to be manageable, and the Administration concluded that an immediate change in policy toward alien investment was not warranted. 3/ This was the decision even though foreign direct investment had increased from $13.9 billion at the end of 1971 to $18.3 billion at the end of 1973. The longstanding policy was restated for the U.S. Government by Peter Flanigan, Chairman of the Council on International Economic Policy, on February 5, 1974, before the subcommittee on Foreign Affairs, U.S. House of Representatives, as follows (13):

> U.S. policy with respect to international investment has been based on the premise that the operation of free market forces in determining the direction of worldwide investment flows will maximize the efficient use and allocation of capital resources in the international economy. As President Nixon noted in his April 10, 1973, message concerning the Trade Reform Act:
>
> > ". . . an open system for international investment, one which eliminates artificial incentives or impediments here and abroad, offers great promise for improved prosperity throughout the world."

3/ See appendix 2 for the U.S. policy toward the surpluses.

Accordingly, our basic policy toward foreign investments has been to grant them national treatment--i.e., to freely admit foreign investors and to treat them on the basis of equality with domestic investors once they are operating within the United States. 4/

The U.S. policy was further revealed as the Government encouraged OPEC countries to invest some of their surplus money in U.S. Government securities. This was done in an effort to help finance the expanding Federal debt (see appendix 3).

The policy was strongly supported by James Needham, Chairman of the New York Stock Exchange. He even encouraged the Nation to seek foreign investment monies, quoting the first Secretary of the Treasury reporting to the first Congress, "Rather than be judged a rival, foreign investment ought to be considered an auxiliary, all the more precious because it alone permits an increased amount of productive labor and useful enterprise to be set to work" (32). Needham further argued that the United States will need the foreign money to meet an expected capital shortage over the next decade. He concluded that, in an era of capital scarcity, the welcoming of foreign investment is consistent with our national interest (see appendix 3).

The Administration affirmed the open door policy again 2 years later. In a summary report to Congress in May of 1976, Assistant Secretary of the Treasury Gerald Parsky stated that the Administration concluded that the U.S. policy on inward foreign investment should continue to be one of an open door (38). Even though there could be a large increase in inward investment, he stated, "there are many different kinds of investors and all play a vital role. Foreign portfolio investors broaden the market for U.S. securities and opportunities for American firms to acquire the financing needed for new investments in 'bricks and

4/ See appendix 3 for a further amplification of the policy.

mortar.' The more participation we have in our capital market, the more efficient it is in serving the needs of our economy for investment capital" (38).

The policy toward keeping an open door on international capital flows was reaffirmed in October of 1976 and again in August of 1977. On October 11, 1976, the President signed the International Investment Survey Act of 1976 and reiterated earlier statements. On August 12, 1977, the Administration transmitted the following statement to all diplomatic and consuler posts: "The fundamental policy of the U.S. Government toward international investment is to neither promote nor discourage inward or outward investment flows or activities. This policy is consistent with and reaffirms our longstanding commitment to a generally open international economic system."

FOREIGN INVESTMENT SINCE 1974

Foreign direct investment continued to rise at an increasing rate since 1974: from about $27 billion in 1975 to an estimated $40.8 billion in 1978. Due to the concerns expressed about foreign investment in the 1973-74 period and continuing concern since then, several laws requiring special studies have been enacted. An executive order requires that certain additional reports be made.

Government Studies on Foreign Investment

Numerous bills to deal with the potential increase in inward investment were introduced in Congress in the first year after the large oil price increase in 1974. 5/ The result was passage of the Foreign Investment Study Act of 1974. The most extensive research to date has been done under the auspices of the act (see page 81 in appendix 4 for details on the required areas of investigation). Since the foreign investment topic continued to command interest, President Ford issued an Executive Order in 1975 requiring special reports to be made to keep the President and Congress informed of new developments. The congressional agricultural committees required special reports in 1978 on foreign investment in agricultural land and Congress passed an act requiring that all sales of agricultural land to aliens be reported to the U.S. Department of Agriculture.

The 1974 Foreign Investment Study Act called for identification, investigation, and analysis of foreign direct investment in the United States (to be conducted by the Secretary of Commerce) and foreign portfolio investment (to be conducted by the Secretary of the Treasury). The Bureau of Economic Analysis

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5/ See appendix 4 for a description of the various legislative proposals that were introduced in the 1974-76 period regarding inward investment.

(BEA) of the Department of Commerce conducted a benchmark survey which collected and compiled statistical data on the scope, magnitude, and operations of foreign direct investment. The Domestic and International Business Administration (DIBA) was responsible for most of the analytical work, relying heavily on private contractors and other Government agencies. 6/

A benchmark report was required by BEA to be filed by every incorporated business enterprise subject to the jurisdiction of the United States and in which a foreign person had at any time during 1974 a direct or indirect ownership of 10 percent or more of the voting securities. About 7,200 reports were filed, which covered about 10,200 business entities which in turn represented about 6,000 U.S. affiliates. 7/ The data provided in response to the questionnaires were summarized under seven headings: (1) foreign direct investment position in the United States; (2) U.S. balance of payments transactions related to foreign direct investment in the United States; (3) foreign parents' share in U.S. affiliates' earnings and related items; (4) U.S. affiliates' balance sheet and related financial data; (5) U.S. affiliates' income statement and related data; (6) number of U.S. affiliates; and (7) miscellaneous.

The present study examines the nature and extent of foreign investment in the food and fiber system. The tables that follow draw on special work that the BEA did under the first heading mentioned above (foreign direct investment position in the United

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6/ The Department of the Treasury used a similar procedure. The Office of International Investment conducted the portfolio benchmark study and was also responsible for the analytical work which was largely handled by an outside contractor.

7/ A complete description of the survey's specifications and results are available in volume II of the Commerce report cited in appendix 1.

States) after their reports were published. Concentration in manufacturing, accounting methods used by foreign investors, and the specific reasons for investment in certain industries are covered in the reports submitted to the Congress and are mentioned in this study only to the extent that they relate to the investment in agriculture and the food system.

Extent and Characteristics of Food System Investment

Information provided in this section represents the first specific effort to determine the level of foreign direct investment in the U.S. food system including agriculture. 8/ Thus, the data in this section should be viewed as a benchmark that can be used for rates of change comparisons against the next survey. The data can also be used to compare foreign investment in food system firms with total direct investment in other sectors of the U.S. economy and to compare foreign investment with total investment in specific food system subsectors or activities.

The data that BEA prepared for this report show that there was inward food system investment in most of the major Standard Industrial Classification categories but that the foreign investment did not dominate any of the major sector investments such as manufacturing or wholesale trade (table 4). The 950

8/ While the BEA has obtained investment position data for many years, it had not been detailed enough to allow food system identification and analyses. Due to budget restraints, it was not possible to develop data on food system firms from among all of the categories that BEA included for food system firms. Data must be examined so that individual firms are not identifiable. Thus it was not possible to make food system data available by State. Likewise, data are not available on outward U.S. investment in the food system in other countries, either on a total or individual country basis.

Table 4--Selected characteristics of U.S. affiliates of foreign investors, by industry, 1974 1/

Industry	Code	Affiliates	Direct investment position	Total assets	Property, plant, & equipment (net)	Net sales, excluding sales taxes	Employees	Employee compensation	Exports	Imports
		Number	Million dollars				Number	Million dollars		
All industries		5,984	26,512	174,272	29,366	146,771	1,083,431	13,299	24,158	30,485
Agriculture, forestry, and fisheries	01	104	2/	465	226	365	7,917	39	79	15
Agricultural production:										
Crops	010	48	18	258	133	226	3,019	24	2/	12
Livestock, excluding beef cattle feedlots	020	19	0	110	47	22	617	4	2/	0
Beef cattle feedlots	021	4	0	16	6	2/	145	1	0	4
Agricultural services	070	13	2/	28	17	39	3,584	7	9	0
Forestry	080	11	2/	41	18	11	192	2	2/	1
Fishing, hunting, and trapping	090	9	2/	12	5	2/	360	2	0	8
Manufacturing:	20	1,155	8,242	26,213	8,965	31,301	550,638	6,695	2,026	3,059
Food		122	1,384	3,864	878	5,534	74,721	848	94	360
Meat products	201	15	34	180	48	804	8,352	93	6	21
Dairy products	202	8	2/	2/	24	2/	2/	2/	1	20
Canned and preserved fruits and vegetables	203	12	2/	470	108	540	10,883	106	2/	20
Grain mill products	204	6	4	2/	73	2/	2/	2/	2/	12
Bakery products	205	5	1	153	81	446	11,507	135	0	14
Beverages	208	27	721	1,674	276	1,353	13,950	187	15	210
Other foods and kindred products	209	49	472	1,086	267	1,498	18,225	207	47	158
Other Manufacturing	21	107	894	2,520	557	2,402	51,625	583	2/	2/
Tobacco	210	7	2/	2/	2/	2/	2/	2/	2/	2/
Lumber and wood products										
Including furniture:	24	42	115	338	113	340	6,853	89	61	40
Excluding furniture	240	26	111	287	103	275	4,720	49	61	27
Chemicals	28	155	2,672	7,895	3,527	7,985	114,695	1,615	554	564
Agricultural chemicals	287	16	556	1,147	409	1,247	12,679	185	48	34
Machinery	35	276	1,093	3,511	655	4,400	99,555	1,183	491	700
Farm and garden machinery and equipment	352	9	2/	2/	2/	2/	2/	2/	2/	2/

See footnotes at end of table.

Continued--

Table 4--Selected characteristics of U.S. affiliates of foreign investors, by industry, 1974 1/--Continued

Industry	Code	Affiliates	Direct investment position	Total assets	Property, plant, & equipment (net)	Net sales, excluding sales taxes	Employees	Employee compensation	Exports	Imports
		Number	Million dollars				Number	Million dollars		
Wholesale trade	50	1,818	4,153	23,868	1,513	66,499	121,905	1,657	19,173	22,334
Farm and garden machinery, equipment, and supplies	508	32	131	324	2/	712	3,508	37	92	236
Groceries and related products	514	120	70	1,711	70	5,307	7,854	99	2/	1,647
Farm product raw materials	515	89	379	4,091	199	17,917	7,785	127	10,212	1,650
Other nondurable goods	516	417	480	1,747	2/	4,276	17,763	232	429	1,543
Miscellaneous	519	206	276	990	54	2,313	8,564	117	246	747
Retail trade	52	233	425	2,259	752	6,327	120,522	1,063	2/	307
Food stores, eating and drinking places	540	67	223	957	384	4,204	67,832	628	2/	79
Finance, insurance, and real estate	60	1,572	6,196	84,758	3,277	11,259	72,614	898	2/	9
Security, commodity brokers, service and investment company	620	155	2/	3,235	35	756	5,444	126	2/	2/
Other		1,206	2/	18,633	8,903	2/	2/	2/	2/	2/
						Percent				
Food, percentage of all manufacturing		11	17	15	10	18	14	13	5	12
Food system:										
Percentage of all manufacturing		16	36	26	18	27	20	20	16	23
Percentage of all industries										
Agriculture, forestry, and fisheries		2	3/	3/	1	3/	1	3/	3/	3/
Manufacturing		3	11	4	5	6	10	10	1	2
Wholesale trade		14	5	5	2	21	4	5	53	19
Retail trade		1	1	1	1	3	6	5	3/	3/
Finance		3	3/	2	3/	1	1	1	3/	3/
Total		16	18	12	9	31	22	21	54	21

1/ Individual industry groups do not add to total; includes some double counting. Industry codes were adopted by the Bureau of Economic Analysis from the Standard Industrial Classification Manual, 1972 and the Enterprise Standard Industrial Classification Manual, 1974, both available from the U.S. Government Printing Office. 2/ Suppressed data cells. 3/ Less than 1 percent.

Source: Unpublished data by the Bureau of Economic Analysis, U.S. Dept. Comm., and collected under the authority of the Foreign Investment Study Act of 1974.

firms with most of their sales in the food and fiber system--including agriculture, forestry, and fishing--accounted for 16 percent of the 6,000 or so affiliates of foreign firms in the United States.

Food system affiliates accounted for about 18 percent of the $26.5 billion foreign direct investment equity in the Nation, but for only about 12 percent of the $174 billion in total assets controlled. Food system affiliates of foreign firms, however, accounted for 31 percent of all foreign affiliates' net sales, 22 percent of the foreign affiliates' employees in the United States, and 21 percent of foreign affiliates' volume of importing. This was true even though the number of food system firms accounted for only 14 percent of all firms in wholesale trade and 16 percent of those in manufacturing.

Of all foreign affiliates operating in the United States, those engaged in wholesale trade did the most exporting. A few firms in the food system did over half of the total dollar value of all exports. This involved primarily the export of such commodities as food and feed grains and oil and oilmeal products. 9/

Table 5 shows that foreign-owned affiliates involved in the U.S. food and fiber system did not dominate any sector but were quite important in some. Foreign-owned firms accounted for about 11 percent of the total number of tobacco-manufacturing firms in the United States and about 3 percent of the securities, commodities brokerage, and investment companies. In all other sectors of the food system, foreign affiliates accounted for less than 2 percent of the total number of firms.

Foreign-owned firms accounted for about 36 percent of the total assets of the agricultural chemical industry. Those operating in the wholesale farm

9/ See appendix volume 4 of the U.S. Department of Commerce report cited in appendix 1 of this report.

Table 5--U.S. affiliates of foreign firms in the U.S. food and fiber system--assets and business receipts, 1974

Industry	Code 1/	U.S. firms: Total 2/	U.S. firms: Total assets 2/	U.S. firms: Total receipts 2/	Foreign affiliates' proportion to total 3/: Number	Foreign affiliates' proportion to total 3/: Total assets	Foreign affiliates' proportion to total 3/: Business receipts
		Number	Million dollars		Percent		
Food		15,060	70,520	158,117	0.8	5.4	3.5
Meat products	201	2,310	8,889	37,988	.7	2.1	2.1
Dairy products	202	2,076	8,124	19,440	.4	4/	4/
Canned and preserved fruits and vegetables	203	987	10,222	13,524	1	4.6	4.0
Grain mill products	204	1,930	8,144	19,864	.3	4/	4/
Bakery products	205	1,897	3,440	8,306	.3	4.4	5.4
Beverages	208	2,239	17,388	26,013	1	9.6	5.2
Other foods and kindred products	209	2,684	9,373	21,061	2	11.6	7.1
Tobacco	210	63	14,032	13,068	11	4/	4/
Agricultural chemicals	287	2,896	9,773	11,492	.5	35.9	10.9
Groceries and related products	514	20,870	13,081	76,875	.6	13.1	6.9
Farm product raw materials	515	7,161	12,453	58,494	1	32.9	30.6
Food stores, eating and drinking places	540	102,936	29,806	124,886	.06	3.2	3.4
Securities, commodity brokers, service and investment companies	620	4,867	24,986	2,601	3	12.9	29.1

1/ See table 4 for explanation of industry codes.
2/ Source Book Corporate Income Tax Returns, Statistics of Income 1974, U.S. Dept. of the Treasury, Internal Revenue Service Publication 1053 (12-77).
3/ Based on data provided in table 4.
4/ Suppressed by the Bureau of Economic Analysis to protect the confidentiality of respondents.

product raw materials industry followed closely with ownership of about one-third of the assets of all such firms in the United States. Foreign affiliates' assets amounted to 13 percent in two other categories, wholesale grocery trade and securities, commodity brokerage, and investments industries.

The larger-than-normal asset position held by foreign-owned agricultural chemical firms can be explained by their limited product line specialization. Foreign-owned firms appear to limit their activities to agricultural chemicals while other firms making agricultural chemicals produced broader product lines. This practice increased the foreign firms' investment position relative to other firms. A similar situation appeared to hold for foreign firms involved in groceries and related products. U.S. firms had broader products lines than foreign firms with a similar value of fixed assets.

From a business receipts (sales) perspective, foreign affiliates did about 30 percent of the total combined U.S. sales of farm product raw materials in 1974, and of securities, commodity brokers, and investment companies. The foreign-owned affiliates did about 11 percent of the agricultural chemical sales and about 7 percent of the other food and kindred product sales. It is noteworthy that the foreign-owned securities, commodity brokers, and investment companies achieved their high sales percentage with a smaller investment in assets than most U.S. firms.

In addition to foreign affiliates whose primary line of business was agriculturally related, other foreign firms had agricultural sales in a secondary or lower position. Table 6 records 115 firms in this group. These firms had $5.4 billion in food system sales which accounted for about 20 percent of the firms' total sales. The firms' U.S. assets totaled about $11.6 billion.

Country of Parent Company Ownership

Of concern to some observers has been whether foreign ownership in the U.S. food system has been concentrated in companies of one or a few countries and whether the companies have integrated through a part of the food system in order to obtain specified products to export to their home country or elsewhere. The data in table 7 and in appendix table 1 provide information on at least part of these concerns.

Parent firms from any one country had not concentrated all of their investments in any one part of the U.S. food system nor had foreign parents

Table 6--U.S. affiliates of foreign firms with food and fiber sales of secondary importance or less, by country, 1974

Country of origin	Affiliates	Total assets	Net sales, excluding sales taxes	Net agricultural related sales
	Number	Million dollars		
All countries	115	11,574	27,449	5,450
Developed	100	11,042	26,944	5,334
Canada	5	1/	1/	1/
Europe	49	4,694	4,925	590
EEC	38	4,547	4,722	551
Other	11	147	203	39
Japan	41	6,185	21,824	4,731
Australia, New Zealand, and South Africa	5	1/	1/	1/
Developing	15	532	505	116

1/ Suppressed by the Bureau of Economic Analysis to protect the confidentiality of respondents.

Source: Unpublished data prepared by the Bureau of Economic Analysis, U.S. Dept. Comm., and collected under authority of the Foreign Investment Study Act of 1974.

integrated throughout a part of the entire food system. The largest number of food and fiber system companies (462) has European parents, followed by Japan (191) and Canada (160). Six countries held over 75 percent of the foreign-owned affiliates in the U.S. food and fiber system.

Eighty-nine of the Japanese companies were involved in wholesale trade such as groceries and related products and farm products and raw materials; 25 were in agriculture, forestry, and fishing. That indicates that the Japanese companies concentrated in activities that helped them procure food supplies. However, they also engaged in the U.S. retail sector: 40 companies were involved in such activities as foodstores and eating and drinking places.

Table 7--U.S. affiliates with food system activity as the largest percentage of sales, by country of origin, 1974

Country	Agriculture, forestry, and fisheries	Manufacturing	Machinery	Wholesale trade	Retail trade	Finance	Total
	Number of firms						
All developed countries	104	171	9	447	66	155	952
Canada	12	43	6	63	13	23	160
Europe	35	86	2	249	9	81	462
EEC	29	69	2	188	7	72	367
Other	6	17	0	61	2	9	95
Japan	25	28	0	89	40	9	191
Australia	0	0	0	1	0	2	3
New Zealand	0	0	0	2	0	0	2
Other	32	14	1	43	4	40	134

Source: Appendix table 1.

Sixty-three of the Canadian companies were involved in wholesale trade. Forty-three were in food manufacturing and 23 were involved in commodity brokering and investments. Only 12 were involved in agriculture, forestry, and fishing.

For firms where agriculturally related sales were of secondary importance, the majority of the parent owners of the 115 firms were located in the developed countries (table 6). European parent companies owned 49 of the U.S. affiliates, and Japanese parents owned 41 of them. The same general pattern held regarding sales.

Portfolio Investment

Foreign portfolio investment (in stocks, bonds, Federal securities, and others) was much larger than foreign direct investment. The amount of foreign investment in the food and fiber system, however, was not possible to isolate from other economic sectors because the data were collected only at the two-digit level of the standard industrial classification. 10/ But research personnel who worked on the portfolio study observed that possibly 10 to 20 percent of the $23.7 billion foreign portfolio investment in stocks was in food system firms at the end of 1974 (table 8).

10/ The Department of Treasury in hearings before the Congress concluded that their current accounts work, which was based on the 1974 benchmark survey, underreported the amount of foreign portfolio investment in the United States (38). However, Treasury concluded that the 1974 survey results do not appear to raise questions about the current monthly reporting system and that the conceptual and institutional structure of the reporting system is accurate and not in need of change. Treasury also suggested that another inward portfolio study is not needed any time soon, and that the desirability of undertaking any future surveys should be decided in the future on the basis of how much increased accuracy is worth compared with costs involved by both the Federal Government and the reporting sectors.

Table 8--Value of foreign portfolio investment in the United States by selected countries and area 1974

Country	Corporate stocks	Corporate bonds	Other private debt	Government obligations	Total
			Million dollars		
Europe	17,453	6,285	4,804	1,032	29,573
Switzerland	7,032	1,836	950	130	9,948
United Kingdom	3,782	1,256	2,042	716	7,795
France	1,758	582	276	84	2,699
Netherlands	2,110	331	250	7	2,698
Germany	808	1,371	452	48	2,678
Belgium	581	326	212	4	1,124
Other	382	583	622	43	2,631
Canada	3,564	746	627	78	5,016
Latin American Republics 1/	618	31	224	25	898
Other Western Hemisphere 2/	904	192	618	55	1,769
Middle East oil-exporting countries	68	13	86	61	228
Other Asia	844	88	762	74	1,767
Africa	60	3	10	2	76
Other countries 3/	87	3	212	5	308
Unallocated by countries	82	10	0	0	92
Total 4/	23,677	7,373	7,345	1,332	39,727

1/ All countries south of United States in North and South America, plus Costa Rica, Cuba, Dominican Republic, and Haiti.
2/ Bahamas, Barbados, Belize, Bermuda, Br. West Indies, French West Indies and Guiana, Grenada, Guyana, Jamaica, Netherlands, Antilles and Surinam, and Trinidad and Tobago.
3/ Australia, Br. Oceania, Fiji, French Polynesia, New Caledonia, New Zealand, St. Pierre and Miquelon Islands, Tonga, U.S. Trust Territory, and Western Samoa.
4/ Elements may not add to totals due to rounding.

Source: Foreign Portfolio Investment in the United States, vol. I, report of the Secretary to the Congress, U.S. Dept. Treasury, Aug. 1976.

Accurate estimates of portfolio holdings by citizens and firms from various countries were difficult to obtain. This is the case since beneficial holders (the actual owners of the holdings) are not necessarily residents of the same countries as holders of record (those who hold the portfolio for the actual owners). Over half of the foreign private holdings of U.S. stocks were reported in the names of banks, brokers, and nominees at the end of 1974. Nonetheless, the Department of Treasury estimated that portfolio holdings were heavily concentrated by country. Food system holdings probably corresponded to the proportion of total holdings by the various countries.

The Department of Treasury suggested that foreign portfolio investment probably increased substantially after the benchmark survey was completed since the reporting date fell at the end of a period of falling U.S. stock prices. Data were collected for the benchmark survey early in the period of large accumulations of funds by the oil-producing nations and before they had an opportunity to allocate their holdings across a balanced and diversified portfolio. The market value of stock holdings sharply increased in 1975 and early 1976, which increased the value of foreign holdings of U.S. stocks. The total value of foreign portfolio investment in the United States was estimated at $95 billion as of March 31, 1976.

Investment in Agricultural Land

Ownership of agricultural land has been an issue of considerable interest, especially among rural residents, since the founding of the Nation. Some observers speculated that foreign investors would purchase agricultural land and produce specific products for export to home or other countries. Given the interest in agricultural land, a special question on foreign ownership was included in the BEA benchmark survey: foreign interests were required to report if they owned or leased 200 acres or more. Those whose total investment including total assets and total revenues was less than $100,000 were not required to report land and mineral holdings.

About 1 million acres of agricultural land were reported held by foreign investors. This represents only about 0.1 percent of the 1.1 billion acres of U.S. land in farms. The remaining landownership reported by U.S. affiliates of foreign firms totaled about 4 million acres; 27 percent of which was owned by affiliates engaged in manufacturing, 17 percent by real estate affiliates, 11 percent by petroleum affiliates and 23 percent by other, including mining, transportation, wholesale trade. Thus, the U.S. Department of Commerce reported to the Congress that foreign ownership of agricultural land and other real estate was not extensive for the Nation as a whole.

The survey developed no evidence that foreign firms operating in various subsectors of the U.S. food system also owned U.S. agricultural land that was used as part of an integrated set of activities in the U.S. food system; nor did the survey find that foreign investors were producing specific products on the land for export to the home country. This finding supports the general belief that foreign investors need not purchase agricultural land, where the rate of return on investment (excluding capital gains) is low, to obtain the agricultural products needed in the export market. Where a specific quantity and quality of product is needed, foreign exporters can enter contractual arrangements with U.S. producers.

The general conclusion, however, of the Department of Commerce was that foreign ownership of agricultural land was not successfully recorded in the benchmark survey effort. 11/ The report recommended to the

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11/ The Department of Commerce used various publicity media to inform alien owners and their agents of the requirement to obtain and complete a benchmark questionnaire. Commerce requested that USDA use its media and Extension Service to do likewise. USDA chose not to use the Department's facilities, believing that the benchmark questionnaire would overburden respondents who had earlier in the year completed the census of agriculture. The farm editor of the Cedar Rapids (Iowa) Gazette conducted a small survey of alien owners of farmland near Cedar Rapids (7, 8, 47, 48, 49, 50). He identified over 5,000 acres in individual tracts of over 200 acres that were not, but that should have been, reported to the Department of Commerce. The applicability of the findings to the State of Iowa, the Corn Belt, or the United States is uncertain.

Congress that if further analysis of alien ownership of real estate were required, more information was needed. The report also suggested that work should be done on the degree to which alien ownership data are being incorporated into county land record systems.

Agricultural groups again raised the issue of foreign investment in agricultural land in 1977 and early 1978. In response, the Senate Committee on Agriculture, Nutrition, and Forestry instructed the General Accounting Office (GAO) to identify and analyze State and Federal laws on foreign investment in U.S. farmland, to determine the availability of data on alien investment in agricultural land at the State and county levels, and to provide alternatives for a nationwide data collection system.

Laws regulating land have historically been enacted and enforced at the State level. The government accounting office reported that 25 States had laws that constrain foreign ownership of land; the remaining 25 States had no such laws (61).

The GAO collected data on foreign ownership of farmland in 25 counties in five States and estimated that foreign ownership accounted for about 3 percent of the farmland in these counties. The report emphasized the difficulty in obtaining information and in assessing its accuracy. GAO concluded that "the information we were able to gather could be only the tip of the iceberg or it could represent a conservative approximation of the situation in the counties involved" (61, p. 8).

The Senate Committee, after reviewing the report, directed the GAO to collect more data on alien investment in agricultural land in more counties. The committee directed that USDA cooperate by encouraging the Agricultural Stabilization and Conservation Service and the Extension Division of the Science and Education Administration to provide any information they had. The report was published in 1979 (64). The GAO observed that current or planned Federal data collection efforts on alien ownership of agricultural land are not encouraging and suggested that "a Federal registration system similar to the current resident alien registration system may be the simplest and best means for obtaining nationwide data" (64, p. 12).

The House Committee on Agriculture in June of 1978 held hearings on foreign investment in agricultural land to sort out what was known about the topic. The Family Farm Subcommittee conducted additional hearings in July 1978 on the several reporting bills before it (28). After the hearings, the subcommittee reported out the Agricultural Foreign Investment Disclosure Act of 1978, which was signed into law in October as Public Law 95-460.

The House Committee on Agriculture, in its hearings on the bill, observed that the impact of foreign investment on U.S. agriculture is difficult to determine:

> Some argue that foreign investment in U.S. farmland is beneficial because it provides new sources of capital for the expansion of farming and ranching and helps ameliorate the U.S. balance-of-payments problem. Others argue that such investment is harmful since it does not stimulate the economy, nor create jobs and a heavy influx of foreign investment in agricultural land could be giving rise to situations which threaten the continued viability of family farms. (28)

The committee concluded that the first need was to obtain information on the nature, magnitude, and scope of foreign investment activity in agricultural land. Thus, the act requires that any person who holds, acquires, or transfers any interest, other than a security interest, in U.S. agricultural land submit a report to the Secretary of Agriculture detailing the acreage, legal description, purchase price, and intended agricultural uses of such land. The act provides a civil penalty of up to 25 percent of the value of the land in question for persons who fail to submit reports or who knowingly submit false or misleading reports. 12/

The act imposes no restrictions on present holdings, future acquisitions, or transfers of such land by anyone. The House Committee on Agriculture observed that lack of information may be causing some segments of the population to overact to dangers they perceived and might be causing other people to disregard some potentially damaging trends. The Committee stated that "only after the information has been gathered can decisions be made as to what, if anything, should be done to deal with the ownership of agricultural land" (28).

By the end of the first year of reporting under the act (late 1979), information should be available on current holdings to date. At the end of each of the following years, rates of change in investment should be available. The Congress apparently intends to wait to appraise the situation until the act has been in effect for 3 years.

Direct Investment Since 1975

Even before results of the research work under the Foreign Investment Study Act of 1974 were available, numerous legislative proposals to restrict and monitor inward investment were introduced to the Congress. To deal with the issues further, President Ford issued Executive Order 11858 on May 7, 1975. The order: (1) established a committee that reported to the President on foreign investments in the United States, (2) directed the Secretary of Commerce to improve the

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12/ A unique feature in the act requires the Secretary of Agriculture to send a copy of each report to the State or States in which the agricultural land transaction occurred, and to make the reports available for public inspection. The Secretary is also required periodically to provide the President and the Congress with an analysis of the information contained in the reports received by the Department.

collection and use of data on foreign investment, and (3) directed all Federal departments and agencies to provide information and assistance as requested by the committee or by the Secretary of Commerce to the extent permitted by law. 13/ The order has an indefinite life.

The order directed that the committee should be composed of: (1) four representatives, whose status was not below that of an Assistant Secretary, one representative to be designated by each of the Secretaries of State, Treasury, Defense, and Commerce, (2) the assistant to the President for Economic Affairs, and (3) the Executive Director of the Council on International Economic Policy. The representive of the Secretary of the Treasury was named committee chairman. 14/ The committee's primary role was to advise foreign Governments on whether their proposed governmental investments in the United States were welcome or not. Consultations with foreign Governments have taken place through the usual diplomatic channels.

The President's committee assigned to the Secretary of Commerce the responsibility for obtaining, consolidating, and analyzing information on foreign direct investment in the United States. The Commerce Departments' new office of Foreign Investment in the United States issued its first major report in December 1977. The report summarized information on transactions involving foreign direct investments in the United States. All foreign acquisitions may not have been covered, however, since data were obtained mainly from public files of Federal regulatory agencies and all new foreign-owned firms are not required to submit reports to Federal regulatory agencies (20).

13/ The order stated that nothing in the order was to affect, supersede, or prejudice existing department or agency regulatory or enforcement authority over foreign investment.

14/ The President did not name a representative from the Department of Agriculture to the committee.

The report showed that one new agricultural firm, involved in crop production and with assets of over $7 million, and six food system firms had been acquired by foreign interests in 1976. The total value of five of the six food firms was $67.2 million; the value of the sixth firm was not available. In addition, one foodstore firm worth $12 million and four eating and drinking places, together worth $2 million, were enumerated by the study as having been acquired by foreign interests in 1976.

PRIMARY REASONS FOR INVESTING IN THE UNITED STATES

The general economic goals of foreign investment (or any type of investment) are to preserve capital and obtain the highest rate of return on investment, including capital appreciation, consistent with a desired risk exposure. The reasons most frequently advanced for investment in the United States since the midseventies are the stability of the U.S. economy and markets and freedom from government regulation. The central reasons and perceptions that influenced U.S. investments in the seventies were rather comprehensively summarized in February of 1977 in International Reports as follows:

> Centralized state power is asserting itself more strongly in most Western World countries, and where this is not happening the democratic parliamentary system is at a critical stage. The area where western democracy, under a Parliamentary system, is functioning is narrowing. Centralized government is widening its role in the economy in most Western countries.
>
> A new trend is developing: Private major investors and business executives with private financial wealth are seeking to build up a "nest egg" or to shift investment funds into Western Hemisphere countries. These funds are shifted in particular to the U.S. which is considered by them as the only stronghold of Western capitalism where the democratic system and private property rights will continue to be stable, more so than in Europe itself.
>
> Feb. 23, 1977

The report further speculated: "In Europe the countries with the oldest democratic parliamentary systems may not be able to overcome internal divisions and opposition against monetary stabilization policies without constitutional changes which will make it possible for authoritarian governments to be formed."

Similar motivations were advanced by Frank Hawkins in Foreign Investment, Inside USA Report:

> Buyers from overseas increasingly eye the U.S. as a safe haven for their assets. Profit is not the main spur; safety is . . . the reason is more fundamental than market conditions or trade cycles. It's political--foreigners are paying for American assets because they fear confiscation, or at least regulation, of their assets back home. They trust America to respect rights and provide a sanctuary for property. This windfall for American sellers dramatizes the weakness of other economies, as well as most other political systems . . . America not only sets the example--but we really stand as the last best hope of the world.
>
> Dec. 15, 1975

Forbes magazine also reported:

> Wealthy people all over the world want to own property in the U.S. explains Houston builder Kenneth Schnitizer. In late 1975 for example, West Germany's secretive Friedrich Flick family sold $450 million worth of Daimler-Benz stock. Four months later, the Flicks paid Schnitizer $42 million for the 35-story Entex building in downtown Houston.
>
> Scores of other foreigners have smaller interests in Houston ranging from condominiums to shopping centers. Owners include British and Canadian pension funds and individual investors as far away as Australia. No one knows exactly how much foreign money has poured into Houston but experts say it exceeded $200 million during 1976.

"Outside your country, people have always tried to spread their investment," says Siegfried Steiner, who works for London based Cargo Holdings, Ltd. Since 1975 he has bought $30 million worth of Houston real estate for private foreign clients. All of Europe is becoming overregulated, dominated by trade unions and hostile to private capital. Spain and Portugal used to offer good investment opportunities, but no more.

April 15, 1977

A Wall Street Journal report also supported this view:

A score of top French executives--including Baron Guy de Rothschild, of Metal; Max Mazerand, Chairman of Revillon Freres, and David Dautresme, Executive Vice President of Credit Lyonnais, France's No. 2 bank--were in New York last week sounding out the possibility of new U.S. investments. Several indicated they would like to get more of their francs into U.S.-based assets before their country's general election next March.

The report further suggested that:

French investors may be putting political considerations ahead of economic ones. Of late, prices and labor costs--important reflections of business health--have risen faster in the U.S. than in France.

May 12, 1977

The general explanations about political and economic instability of the home country and the desirable stability in the United States appear to apply mostly to European countries. Japanese investments in the United States tend to focus more on the U.S. market, to obtain management know-how or natural resources, to capitalize on the readily available loan money in the United States, and to penetrate potential or actual barriers to Japanese products.

Members of OPEC are also a special case. All but three of the countries are able to use their increased oil revenues domestically in normal market development. The countries without investable surpluses may invest in the United States to obtain supplies and management know-how for development at home. The countries with surpluses above what they can use for development in their own countries are concerned primarily with preserving capital for future generations. They support this position with the observation that they lack other resources to develop or use once their natural gas and oil supplies are exhausted. They explain that preservation of capital includes obtaining a competitive current rate of return on investment, protecting purchasing power against inflation, and minimizing their risks of expropriation of investments in other countries. The latter two protections are difficult to find in the international investment community, especially for the large amounts of surpluses.

Foreign-owned multinational firms present still another category of investors in the United States. Multinational firms that invest here do so usually to manufacture their product in the United States to be marketed both here and abroad. Thus, their investments depend on the U.S. outlook for input costs, product prices, and, to some extent, on the outlook in other countries. Equally as important are relative costs of production and transport, tariff, and other trade barriers into and from the United States versus those of other countries.

Some observers contend that the area of multinational investments needs the most extensive analysis. Multinational firms (both U.S. and foreign) are creating controversial forces whose impact is not yet fully understood. For instance, Barnet and Muller observed that, "The global corporation is the most powerful human organization yet devised for colonizing the future. By scanning the entire planet for opportunities, by shifting its resources from industry to industry and country to country, and by keeping profit maximization as its overriding objective, it has become an institution of unique power . . . (The managers) exploit the advantages of mobility while workers and Government are still tied to particular territories . . . In making decisions today they are creating policies for the next generation" (2). There is some indication, however, that expansion of the U.S.--based multinational firm of the fifties and sixties is slowing or even decreasing (40). This is in part due to changes in trade barriers, devaluation of the dollar, floating exchange rates, and higher priced labor in other countries. In addition, U.S. managerial and technological superiority has been decreasing. Companies most likely to continue to expand are those involved in mining and petroleum and high technology.

Still another analyst suggested that since foreign investors have incentives to invest in U.S. real estate, the U.S. ability to capitalize on such investments is an answer to foreign surplus dollar problems as well as to improvements in the real estate tax base in the United States (30).

Reasons for Foreign Investment in U.S. Farmland

Additional considerations, other than those cited above, influence foreign investments in U.S. agricultural land. Concerned with newspaper and magazine accounts in the winter and spring of 1973 on foreign investments in various areas of the country, the House Subcommittee on Family Farms, Rural Development, and Special Studies conducted hearings in June 1978, which drew forth some elucidation of the foreign investment considerations (28). 15/ While the witnesses appearing before the committee were unable to cite results of extensive and rigorous studies,

15/ Business Week for example, reported that a European real estate institute estimated that about $1 billion had been invested by foreigners in U.S. agricultural real estate in 1977 and a like amount was they nonetheless were able to bring together some general impressions about foreign investment in agricultural land (75, 76).

1. Most of the investment is made by individuals, two- or three-person partnerships, and syndicates. The availability of differing size tracts in various areas of the country appeals to small investors.

2. U.S. farm real estate can be purchased in contiguous tracts or a sufficient number of tracts can be purchased in close proximity so that units are large enough to achieve most operating, purchasing, and marketing economies.

3. Few restrictions are placed on purchase or use of U.S. agricultural real estate in terms of who can purchase it, what livestock or crops can be grown, or what improvements can be made. Prior approval for such activity is generally not required, in contrast with the situation in Western Europe.

4. The U.S. financial system of providing farm credit is among the most highly developed in the world. Access to the system is almost as readily available to the alien investor for both short- and long-term credit as it is to the U.S. citizen.

5. U.S. farm real estate taxes are relatively low in relation to value, usually 1 percent or less of market value.

6. The United States has high respect for property and property rights and backs up private ownership with an adequate system of local, State, and Federal law enforcement to protect property. In addition, the U.S. Government and military are

projected for 1978 (5). The estimate was much larger than any previous private or Federal estimates but even if correct, would have accounted for less than 10 percent of the agricultural real estate sold in 1977.

stable so that expropriation of property is unlikely.

7. The U.S. system of ownership identification readily permits use of nominees for purchasers who desire to have designees pay their taxes or protect their true identities.

8. Demand for U.S. food and fiber is strong and farm programs provide for the Federal Government to support prices at cost of production. These factors should help to support current and rising land values.

9. Private appraisers and brokers can quickly identify alternative parcels of land and provide expert appraisal for an alien investor. U.S. agricultural real estate for sale is often widely advertised and sold in competitive bidding, some in open auction. In addition, some foreign brokers have established working relationships with U.S. private real estate brokers or have opened their own offices in the United States, making it possible for the alien to make U.S. purchases through his local broker. Modern equipment allows instant communications on real estate information and transactions between private firms in various nations.

10. The nonresident alien owner of U.S. farm real estate has a wide choice of U.S.-based absentee farm managers to help him attain his investment objectives and at a reasonable fee. The manager provides frequent reports on developments, outlook, and potential problems.

11. The foreign investor in agricultural land can obtain substantial ordinary income and capital gains tax advantages. Investors from certain countries face a higher marginal tax rate compared with that in the United States. Tax treaty provisions with those countries provide further opportunities to lower or minimize taxes. See Volume 5 of the Commerce report in appendix 1 and (62).

Possible Effects of Foreign Investment in U.S. Farmland

Foreign purchases of U.S. farmland could have at least three possible effects on the agricultural and rural sector:

- They might increase the competition for American farmers wishing to purchase land.
- They might arouse latent feelings of xenophobia in communities affected.
- They might gear their agricultural production for products to be exported to their home country, diverting agricultural resources normally used to meet domestic demand.

Alien investment in U.S. agricultural real estate might increase the competition for the family farmer who is trying to expand by purchasing more land. Increased competition has two aspects. The family farmer may have to pay more per acre as a result of the added competition. Secondly, higher prices for farmland, regardless of buyer nationality, tend to be followed by higher real estate taxes on all farmland.

Alien purchases of agricultural real estate have some favorable effects for other farmers. Owners who sell farm real estate on the open market generally seek the highest price available; alien competition may enhance the price. Secondly, most farm real estate that has been purchased by aliens during this decade has apparently been in relatively small tracts and is often available for rental to farm operators in the community. Such availability can permit family farm expansion without using equity in land, which historically yields low rates of current returns. Certain operators may therefore have access to land that would not otherwise have been available.

A second effect is the potentially negative attitude foreign investors may have toward maintaining and improving community services such as schools and roads. However, a substantial amount of foreign agricultural land ownership in a community would be required for foreign owners to influence local public expenditure policy. In addition, reducing public expenditures to substandard levels does not appear to be in the best interest of alien investors since most public service expenditures add to the value of agricultural land in a community.

A third potential effect expressed about alien purchases is that the new owners may choose to export food produced from their U.S. farmland. If such production were a relatively large proportion of a food or feed commodity, U.S. consumers in times of shortages could face higher prices. However, Federal export control laws can be used to embargo exports. An embargo can be imposed on products produced by aliens as well as by domestics.

Alien investors in U.S. agricultural land seem to believe that worldwide inflation will continue and that the United States will be one of the most successful countries in containing it at reasonable levels. 16/ Containing inflation is important to the foreign investors' current operating returns in relation to costs for purchased farm inputs. In addition, foreign investors see strong demand for U.S. agricultural products, which may cause agricultural real estate prices to increase more rapidly in the future than the general rate of inflation.

Western European investors seem to believe that U.S. farm real estate is priced substantially lower than that in their home countries. The declining value of the dollar in relation to several Western European currencies in the 1976-78 period, coupled with other factors favoring U.S. farm real estate, probably stimulated the apparent increase in foreign investment in U.S. agricultural real estate. The large increases in U.S. farm real estate prices between 1973 and 1976 and the attendant publicity called foreign attention to U.S. farm real estate.

16/ Many newspapers and magazines prepared material of interest on foreign investment in agricultural land, some of which are listed in the bibliography at the end of this report.

CONTINUING DATA COLLECTION AND ANALYSIS

The 1974 Act, authorizing only the 1974 benchmark surveys and related analytical studies to be made, failed to allow for any measurements and assessments of the magnitude of the increase in foreign investment--both inward and outward, direct and portfolio--overtime. To redress that omission Congress passed the International Investment Survey Act of 1976 (90 Stat. 2059, 22 U.S.C. 3101), which was signed into law on October 11, 1976.

The act was to supplement the authority of the President to collect regular and periodic information on international investment. The act is similar to the 1974 Foreign Investment Study Act in its requirement for benchmark surveys and studies of various areas of investment. There are several major differences however: (1) the act is permanent, (2) the act requires work on both inward and outward foreign investment and does not require more emphasis on one over the other; (3) the act requires that benchmark studies be made every 5 years; and (4) the act places responsibility on the President with authority to delegate the work to various agencies. Again, the Department of Commerce had responsibility for direct investment and Treasury for portfolio investment. In addition, the President's Economic Policy Group, the Secretary of State and the Chairman of the Council of Economic Advisers have major advisory roles.

The initial work will focus on outbound investment since the inbound work completed under the 1974 act is reasonably current and the act requires benchmark studies every 5 years. More emphasis will probably be placed on benchmark work on foreign direct investment than on portfolio or analytical studies. Current capital position and flow data on both inbound and outbound investment will continue to be collected by the Bureau of Economic Analysis on a quarterly basis and reported in the Survey of Current Business.

While USDA has no assigned responsibilities other than for real estate, agriculture and food system analysts have a particular interest in seeing that proper attention is given to both inward and outward investment. Measurement and analysis of the effects of change in inward investment in food system firms is important to determine the final effects on consumers. Some particular emphasis may be appropriate on food system firms that are or may become partially or wholly integrated from the input sectors through agricultural production and into or from the processing, marketing, transport, and wholesale and retail food sectors.

The 1974 Department of Commerce study of alien purchases of U.S. farmland served to identify some gaps in U.S. data, information, and analysis on agricultural real estate. One of the conclusions was that, "the special complexities involved in the identification of foreign land ownership, the special importance attached to this aspect of foreign investment, and the limited time and resources that could be devoted to it underscored the need for further analysis" (vol. 1 of the Commerce study; see appendix I). Drafters of the International Survey Act of 1976 followed this recommendation and required that a study be conducted on the feasibility of establishing a system to monitor foreign direct investment in agricultural, rural, and urban land including the feasibility of establishing a nationwide multipurpose land data system.

The findings and conclusions were to be submitted to the Congress not later than 2 years after enactment of the act. This provision was extended since the Congress did not appropriate funds for such work until September of 1978. Work is presently underway under the supervision of the Economics, Statistics, and Cooperatives Service of USDA.

The Bureau of Economic Analysis, U.S. Department of Commerce, issued reporting regulations under the International Investment Survey Act of 1976 in the Federal Register (December 22, 1977, pages 64314 to 64320). These regulations have subsequently been amended and the complete regulations can be found in CFR-part 806. The regulations replace and extend reporting requirements for foreign direct investment that had long been in effect under the Bretton Woods Agreement Act (59 Stat. 515, 22 U.S.C. 286 f). All replies under the new regulations will be held in confidence under provisions of Section 56 of the Survey Act (44 U.S.Code, Section 3509). The essence of the regulations is that all foreign direct investors with total assets, revenues, or net income after income taxes that equals or exceeds $5 million must report their investments and income quarterly to BEA (total assets). The 1976 Act is sufficiently broad so that special surveys or different data collection series can be set up and foreign investors would be required to comply. For example, under the December 22, 1977 regulations as amended, all foreigners who own land above a specified acreage or total value, income, et cetera, are required to report annually under section 806.15 (f) on form BE-15 regarding inward investment in U.S. real estate.

Considerably more information on the nature and extent of foreign direct investments will be required on the benchmark surveys to be undertaken every 5 years. Information that is collected on any of the quarterly, benchmark, or special surveys is required by law to be aggregated so as not to disclose data on an individual company or person. The information is aggregated by major Standard Industrial Classifications. Failure to comply with any reporting requirement for any special survey or quarterly report whether directly notified or not by BEA can be punishable by fines and imprisonment.

FUTURE IMPLICATIONS FOR THE FOOD SYSTEM INCLUDING AGRICULTURE

Concern about foreign investment in the United States has increased since 1973. The U.S. economy is becoming more interdependent with other economies of the world and consequently both inward and outward foreign investment will become more important in the future.

Total foreign direct investment in the United States has in the seventies increased at a higher percentage rate than outward investment but from a much smaller base. Inward investment increased from $13.9 billion in 1971 to $18.2 billion in 1973 to $27 billion in 1975 and $34 billion in 1977; outward direct investment increased from $133 billion in 1975 to $150 billion in 1977. No studies have projected the future levels of inward or outward direct investment, either by sectors or in total. Inward investment, the topic of this report will most likely continue to increase at the largest percentage rate and the food system will continue to be attractive to foreign investors.

The increased flow of investment into the United States evolved from two economic changes. When the income of foreign oil producers exceeded expenditures, the excess was available for investment in other countries including the United States. In addition, some countries without surpluses purchased U.S. technology applicable to the food system and agricultural sector. Secondly, the uncertainties and inflationary problems in some other countries impelled some wealthy citizens and firms to invest some of their money in the United States.

The increase in international capital flows appears to be increasing the internationalization of agriculture and the food system. Prices of basic farm products such as food and feed grains generally depend on foreign demand. Demand from the major importers of U.S. farm products often depends on the size of the crop that they produce; but any changes in foreign demand created by changes in purchasing power, credit availability, foreign exchange rates, or internal economic problems (such as inflation or unemployment) can be reflected in prices for U.S. foods and farm products.

Foreign direct investment in any subsector of agriculture and the food system can increase the competition for resources throughout that subsector. Small U.S. food businesses may not be able to compete effectively for resources against the large capital positions of foreign investors. In addition, foreign investors may take technology from their U.S. operations and use it in other countries in competition with U.S. food system exports. The opposite can also occur. Foreign investors may bring new technology and added capital to U.S. agriculture and the food system. The added capital may develop new food sector resources, increase output or efficiency, or provide improved or new products or services.

While foreign investment in the food system was increasing, the food system including agriculture appeared to help other sectors of the economy. Foreign demand for food and feed grains has been strong since 1976 and has provided compensating foreign exchange earnings against oil import costs. Some of the liquidity in the international money market may be removed when foreign investment is made in fixed agricultural and food system assets. In the longer term, such fixed investments could cause balance of payments problems if foreign investors take current earnings out of the United States or decide to sell their U.S. investments.

Individual Firms and Communities

Foreign direct investment generally involves the purchase of existing firms; in some cases, part of a firm may be purchased. Such purchases affect nearby firms and the surrounding communities in much the same way as any other change in business or corporate ownership.

Some foreign buyers are competing for purchase of food system firms because they believe that world population, as well as demand for food, will increase. Some food firm and agricultural resource owners can benefit directly from foreign investment while others may not.

Domestic agricultural and food firms may also be affected by the knowledge that large amounts of foreign money could come into their subsector or community. That may in turn create uncertainty about competition and prices in the input and product markets, thereby making planning more difficult.

Communities may be affected by two types of foreign ownership. In the most frequent type, foreign ownership represents a small part of all assets and has no noticeable impact beyond the individual firm. In the second type, aliens may obtain a significant part of the assets and the economic change can be minor or great. When little economic change occurs, the new foreign owners would generally use the same type of resident managers, operational philosophy, and community perspectives. Where major change occurs, the new foreign owners would expand or reduce output. Expanded output can create more employment, expand the local tax base, require more public services, and increase property values, but also increase property taxes. The foreign owners could also reduce production or sell their existing plant and move an entire operation from a community. They could also increase mechanization and reduce employment.

Before trying to attract foreign investment, communities may want to appraise the potential effects. New foreign investment generally improves the economic base in a community, but the reverse could also occur. For instance, expanded economic activity in a community may require more public expenditures to improve such facilities as roads and schools. Of course, communities may not be able to have much influence on the sale of existing firms to foreign investors. This is particularly the case where foreigners purchase a multinational firm and one or more of the plants are located in a local community distant from the headquarters.

Public Policy

The agricultural and food sectors generally limit their policymaking activities to farm and food legislation and regulations. Such legislation can affect the incentives for foreign investment in agricultural and food system firms and resources. To the extent that farm and food legislation provide incentives for foreign investment, the short-term effects are generally felt by individual firms and communities: through foreigners' bidding in competition with domestic firms for resources and through foreigners' attitudes about local community development. The broader effects on the food system, including agriculture, of the recent and prospective foreign capital flows, however, are associated with policies beyond the scope of recent agricultural and food legislation: monetary and fiscal polices (both national and international), for example, and policies on international trade, and investment. Since the effects of international capital flows on agriculture and the food system may be substantial, agricultural and food sector policymakers may want to consider more active involvement in the policymaking and implementing process.

In an earlier era, when agriculture was the primary industry in the U.S. economy, many international policymakers had a common agricultural background and the effects of policy decisions on agriculture and food were more readily considered. Modern public policymaking, however, has become more specialized and compartmentalized. As a result, full consideration may not always be given to the contributions of agriculture nor the effects of decisions on agriculture and the food system.

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Appendix table 1--Number of firms by country for each food and fiber industry group in which a U.S. affiliate was classified, 1974 1/

Country	Agriculture, forestry, and fisheries 2/							Manufacturing 2/										
	010	020	021	070	080	090	Total	201	202	203	204	205	208	209	210	240	287	Total
Argentina	1	---	---	---	---	---	1	1	---	---	---	---	---	---	---	---	---	1
Australia	---	---	---	---	--(1)	---	--(1)	---	---	---	---	---	---	---	---	---	---	---
Austria	---	---	---	---	---	---	---	---	---	---	---	---	---	1	---	1	---	2
Bahamas	---	---	---	---	---	---	---	---	---	---	---	---	1	---	---	---	---	1
Belgium	1	---	---	---	---	---	1	---	---	---	---	---	---	---	1	---	---	1
Bermuda	---	---	---	---	---	---	---	---	---	---	---	---	---	---		---	---	---
Brazil	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
British Islands, Caribbean	---	2	---	---	---	---	2	---	---	---	1	---	---	---	---	---	1	2
Canada	4	---	---	---	6	2	12(1)	2	---	3	2	1	11	5	1	12(2)	6	43(2)
Chile	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Colombia	1	---	---	1	---	---	2	---	---	---	---	---	---	---	---	---	---	---
Denmark	---	---	---	---	---	---	---	2	---	---	---	---	---	---	---	1(1)	---	3(1)
Finland	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
France	---	---	---	---	---	---	---	---	2	---	1	1	3	2	---	2	2(1)	13(1)
Gabon	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Germany, Federal Republic of	2	1	---	2	1	---	6	---	---	---	---	---	2	1	---	---	1(1)	4(1)
Hong Kong	---	---	---	---	---	---	---	---	---	---	---	---	1	---	---	---	---	1
Hungary	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Iceland	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Indonesia	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Israel	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Italy	2	1	---	---	---	---	3	---	1	---	---	---	---	1	---	---	---	2
Japan	9	1	---	5	4	6	25	2	---	---	---	---	---	21	---	4	1	28
Kuwait	---	---	1	---	---	---	1	---	---	---	---	---	---	---	---	---	---	---
Liechtenstein	---	2	---	---	---	---	2	---	---	---	---	---	---	---	---	---	---	---
Luxembourg	---	2	2	---	---	---	4	2	---	---	---	---	---	---	---	---	---	2
Mexico	---	---	---	2	---	1	3	---	---	---	---	---	---	---	---	---	---	---
Monaco	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Netherlands	6	1	---	---	---	---	7	---	2	2	1	---	3	1(1)	2	1	1(2)	13(3)
Netherlands Antilles	6	1	---	---	---	---	7	---	---	---	---	---	---	2	---	---	(1)	2(1)
New Zealand	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Norway	1	---	---	---	---	---	1	---	---	---	---	---	---	1	---	---	---	1

See footnotes at end of table.

Continued--

Appendix table 1--Number of firms by country for each food and fiber industry group in which a U.S. affiliate was classified, 1974 1/--Continued

Country	Machinery 2/	Wholesale trade 2/					Retail trade 2/	Finance 2/	Grand
	352	508	514	515	519	Total	540	620	Total
Argentina	---	---	---	---	---	---	---	---	2
Australia	---	---	(1)	---	1	1(1)	---	2	3(2)
Austria	---	---	1	1	---	2	---	---	4
Bahamas	---	---	---	---	2(1)	2(1)	---	3	6(1)
Belgium	---	---	---	---	1	1	1	5	9
Bermuda	---	---	1	1	1	3	(1)	3(2)	6(3)
Brazil	---	---	1	---	(1)	1(1)	---	1	2(1)
British Islands, Caribbean	---	---	1	---	1	2	1	---	7
Canada	6	8(2)	16	5	34	63(2)	13	23(1)	160(6)
Chile	---	1	---	---	---	1	---	---	1
Colombia	---	---	---	---	---	---	---	---	2
Denmark	---	---	7(1)	1	1	9(1)	---	3	15(2)
Finland	---	---	1	---	1	2	---	---	2
France	---	---	5(1)	5	18(2)	28(3)	---	13	54(4)
Gabon	---	---	1	---	---	1	---	---	1
Germany, Federal Republic of	---	2	3	5	18(3)	28(3)	---	3	41(4)
Hong Kong	---	---	(2)	---	1	1(2)	(1)	1	3(3)
Hungary	---	1	---	---	---	1	---	---	1
Iceland	---	---	1	---	---	1	---	---	1
Indonesia	---	---	---	1	---	1	1	---	2
Israel	---	---	---	---	1(1)	1(1)	1	1	3(1)
Italy	---	---	4	2	2(1)	8(1)	1	4	18(1)
Japan	---	3(1)	20(3)	22(10)	44(11)	89(25)	40(15)	9(1)	191(41)
Kuwait	---	---	1	---	---	1	---	1	3
Liechtenstein	---	(1)	---	---	2	2(1)	---	2	6(1)
Luxembourg	2	---	1	5	2	8	(1)	6	22(1)
Mexico	---	---	1	---	2	3	---	---	6
Monaco	---	---	---	---	1	1	---	---	1
Netherlands	---	7(2)	10	7	12	36(2)	2	8	66(5)
Netherlands Antilles	1	2	1	1	7	11	---	3	24(1)
New Zealand	---	---	2	---	---	2	---	---	2
Norway	---	7(2)	10	1	3	8	---	1	11

See footnotes at end of table.

Continued--

Appendix table 1--Number of firms by country for each food and fiber industry group in which a U.S. affiliate was classified, 1974 1/--Continued

Country	Agriculture, forestry, and fisheries 2/							Manufacturing 2/										
	010	020	021	070	080	090	Total	201	202	203	204	205	208	209	210	240	287	Total
Panama	8	1	---	1(1)	---	---	10(1)	---	---	---	---	---	---	2	---	---	1	3
Philippines	---	---	---	---	---	---	---	---	---		1	---	---	---	---	---	---	1
Portugal	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Singapore	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
South Korea	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
South Africa	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Spain	1	---	---	---	---	---	1	---	---	1	---	---	---	---	---	---	---	1
Sweden	---	---	---	---	---	---	---	---	---	---	---	1	---	1	---	---	---	2
Switzerland	1	---	1	---	---	---	2	3	---	1	---	---	1	4	---	1	1	11
Taiwan	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Thailand	---	---	---	---	---	---	---	---	---	---	---	---	1	---	---	---	---	1
United Kingdom	3(1)	3(1)	---	2	--(1)	---	8(3)	3	3	4	1	1	4	6	3	4(1)	2	31(1)
Uruguay	---	2	---	---	---	---	2	---	---	---	---	---	---	---	---	---	---	---
Venezuela	2(1)	2	---	---	---	---	4(1)	---	---	---	---	1	---	1	---	---	---	2
Total	48(2)	19(2)	4	13(1)	11(2)	9	104(7)	15	8	12	6	5	27	49(1)	7	26(4)	16(5)	171(10)

See footnotes at end of table.

Continued--

Appendix table 1--Number of firms by country for each food and fiber industry group in which a U.S. affiliate was classified, 1974 1/--Continued

Country	Machinery 2/	Wholesale trade 2/					Retail trade 2/	Finance 2/	Grand
	352	508	514	515	519	Total	540	620	Total
Panama	---	---	4	4	1(1)	9(1)	---	6	28(2)
Philippines	---	---	---	1	---	1	1	---	3
Portugal	---	---	---	---	1	1	---	---	1
Singapore	---	---	---	---	---	---	---	1	1
South Korea	---	---	---	---	1(1)	1(1)	(1)	---	1(2)
South Africa	---	---	---	---	(3)	(3)	---	---	(3)
Spain	---	---	5	1	1	8	---	---	10
Sweden	(2)	(1)	1	1	2	4(1)	---	4	10(3)
Switzerland	---	2	8(1)	11	11(4)	32(5)	2(2)	2(1)	68(8)
Taiwan	---	---	---	---	---	---	---	---	---
Thailand	---	---	---	---	(2)	(2)	---	---	1(2)
United Kingdom	---	6(2)	20(1)	12(2)	32(8)	70(13)	3(3)	30(2)	142(22)
Uruguay	---	---	---	1	---	1	---	---	3
Venezuela	---	---	---	1	1	2	---	1	9(1)
Total	9(2)	32(9)	120(10)	89(12)	206(39)	447(70)	66(24)	155(7)	952(120)

-- = Not applicable.

1/ Companies were placed in an industry on the basis of the largest percent of sales. Numbers in parentheses are additional companies where percent of sales were second or third largest in the industry, e.g., a company's sales may have been largest in industrial chemicals but second largest in grain mill products. No companies are duplicated in the table.

2/ Industry classifications were as follows:

010 Agricultural Product Crops
020 Agricultural Product Livestock, except beef cattle feedlots
021 Agricultural Product Beef cattle feedlots
070 Agricultural Services
080 Forestry
090 Fishing, hunting, and trapping
201 Meat products
202 Dairy products
203 Canned and preserved fruits and vegetables
204 Grain mill products
205 Bakery products
208 Beverages
209 Other food and kindred products
210 Tobacco manufactures
240 Lumber and wood products, except furniture
287 Agricultural chemicals
352 Farm and garden machinery and equipment
508 Farm and garden machinery, equipment, and supplies
514 Groceries and related products
515 Farm-product raw materials
519 Miscellaneous nondurable goods
540 Food stores and eating and drinking places
620 Security, commodity brokers, and services; and investment costs (except holding costs).

APPENDIX 1

Foreign Investment Study Act of 1974: Legislative Purpose and Required Reports

The Foreign Investment Study Act of 1974 (Public Law 93-479) was signed by the President on October 26, 1974.

The act called for identification, investigation, and analysis of (1) foreign direct investment in the United States bv the Secretary of Commerce and (2) foreign portfolio investment in the United States by the Secretary of the Treasury. The following areas of investigation of foreign direct investment were specified in the legislation.1/

1. The nature, scope, magnitude, and rate of such investment activities in the United States.

2. The reasons that foreign firms are investing.

3. The processes and mechanisms through which foreign investments flow, the financing methods used, and the effects on American financial markets.

4. The scope and significance of foreign direct investment in acquisitions and takeovers of existing American enterprises, in the form of new facilities or joint ventures with American firms and the effects on domestic business competition.

1/ The full text of the act is provided in volume I of the Commerce report listed below.

5. The concentration and distribution of foreign direct investment in specific geographic areas and economic sectors.

6. The effects on U.S. national security, energy, natural resources, agriculture, the environment, real property holdings, balance of payments, balance of trade, the international economic position, and various significant American product markets.

7. The effect on employment opportunities and practices and the activities and influence of foreign and American management executives employed by foreign firms.

8. The effect of Federal, regional, State, and local laws, rules, regulations, controls, and policies.

9. A comparison of the purpose and effect of Federal, State, and local laws, rules, regulations, programs, and policies on foreign direct investment in the United States with laws, rules, regulations, programs, and policies of selected nations.

10. A comparison of foreign investment activities in the United States with investment activities of American investors abroad and an appraisal of the impact of such American activities on the investment activities and policies of foreign firms in the United States.

11. The effects of variations between accounting, financial reporting, and other business practices of American and foreign investors.

12. The adequacy of information, disclosure, and reporting requirements and procedures.

13. The means whereby information and statistics can be kept current.

14. Appropriate recommendations, specifically with respect to keeping information and statistics on foreign direct investments up to date.

The act required similar though not identical investigations of inward portfolio investment.

The following reports were prepared in accord with the provision of the act.

<u>Foreign Direct Investment in the United States</u>. Report to the Congress of the United States, prepared by the U.S. Department of Commerce, April 1976.

<u>Volume 1</u>: Report of the Secretary of Commerce to the Congress, Summary Volume and Recommendations (by the Department of Commerce Staff).

Contents:

Data Collection on Foreign Direct Investment

Conclusions and Recommendations

The Foreign Investment Study Act of 1974

Volume 2: Report of the Secretary of Commerce: Benchmark Survey, 1974 (by the Bureau of Economic Analysis, U.S. Department of Commerce).

Part I: Foreign Direct Investment Position in the United States

Part II: U.S. Balance of Payments Transactions Related to Foreign Direct Investment in the United States

Part III: Foreign Parents' Shares in U.S. Affiliates' Earnings and Related Items

Part IV: U.S. Affiliates Balance Sheet and Related Financial Data

Part V: U.S. Affiliates Income Statement and Related Data

Part VI: Number of U.S. Affiliates

Part VII: Number of U.S. Affiliates Miscellaneous Data

Volume 3:

Appendix A: Industrial and Geographic Concentration of Foreign Direct Investment in the United States (by the Conference Board)

Volume 4:

Appendix B: The Foreign Ownership of, influence on, and Control of Domestic Energy Sources and Supply (by the Federal Energy Administration)

Appendix C: Foreign Direct Investment in Selected Natural Resources (by Office of International Finance and Investment, Bureau of International Economic Policy and Research, Domestic and International Business Administration, U.S. Dept. of Commerce)

Appendix D: Foreign Investment in the U.S. Commercial Fisheries Industries (by Economic and Market Research Division, National Marine Fisheries Service, National Oceanic and Atmospheric Administration, U.S. Dept. of Commerce)

Appendix E: Foreign Investment in the U.S. Grain Trade (Bruce H. Wright and Kenneth R. Krause, Economic Research Service, U.S. Dept. of Agriculture)

Appendix F: Foreign Banking in the United States (by Office of International Economic Policy and Research, Domestic and International Business Administration, U.S. Dept. of Commerce)

Volume 5:

Appendix G: The Reasons and Outlook for Foreign Direct Investment in the United States (by Arthur D. Little, Inc.)

Appendix H: Processes, Mechanisms, and Methods of Financing Foreign Direct Investment in the United States (by Booz, Allen and Hamilton, Inc.)

Appendix I: Management and Employment Practices of Foreign Direct Investors in the United States (by Business School, Georgia State University)

Volume 6:

Appendix J: Tax Aspects of Foreign Direct Investment in the United States (by Cole Corette and Bradfield)

Volume 7:

Appendix K: Legal Restraints on Foreign Direct Investment in the United States (by David Morris Phillips, Associate Professor of Law, Boston School of Law)

Volume 8:

Appendix L: Foreign Investment in Land (by the Economic Research Service, U.S. Dept. of Agriculture)

Appendix M: Legal Regulation of Alien Land Ownership in the United States (by Fred L. Morrison, Professor of Law, University of Minnesota)

Volume 9:

Appendix N: Policies, Laws and Regulations of Other Major Industrialized Nations Concerning Inward Investment (by Office of Foreign Investment, Domestic and International Business Administration, U.S. Dept. of Commerce, in cooperation with United States Foreign Service)

Appendix O: Technology Transfer from Foreign Direct Investment in the United States (by Office of the Foreign Secretary, National Academy of Engineering and Assembly of Engineering, National Research Council)

Appendix P: Effects of Variations Between Accounting, Financial Reporting and Other Business Practices of U.S. and Foreign Investors on Foreign Direct

Investment in the United States (by Touche Ross and Company)

Appendix Q: Foreign Government Agency Sources of Data on Foreign Investment in the United States (by Price Waterhouse & Co.)

Appendix R: Selected Bibliography (by Office of International Finance and Investment, Bureau of International Economic Policy and Research, Domestic and International Business Administration, U.S. Dept. of Commerce)

<u>Foreign Portfolio Investment in the United States</u>. Report to the Congress (prepared by the U.S. Treasury Department, August 1974).

Contents:

Summary and Implications for the Future

Statistical Data

Economic and Institutional Factors

Effects of Foreign Portfolio Investment on the U.S. Economy

Legal Aspects of Foreign Portfolio Investment

Comparison with U.S. Portfolio Investment Abroad

Adequacy of Current Statistical Reporting Requirements

Appendix A: Statistical Tables

Appendix B: Methodology for Survey

Appendix C: Survey Questionnaire Forms

Appendix D: Foreign Investment Study Act of 1974-PL 93-479

Appendix E: Statement by the Honorable Gerald L. Parsky, Assistant Secretary of the Treasury, before the Subcommittee on Commerce and Tourism Senate Committee on Commerce, May 3, 1976

Appendix F: Institutional Aspects of Foreign Portfolio Investment in the United States (by R. Shriver Associates, Parsippany, N.J.)

Appendix G: Legal Aspects of Foreign Portfolio Investment in the United States.

APPENDIX 2

U.S. Policy Toward the OPEC Surpluses

The suddenness of the oil price increases, the potential size of the OPEC surpluses, and the consequences for the United States and the world economy prompted the U.S. Government to consider special policies. The interdependence and the leading role of the United States in the world economy suggested that the U.S. policy consider both the domestic economy, other nations' economies, and the overall world economy. The policy alternatives that were seriously considered were apparently those that fit within the overall U.S. policy of neutrality toward international capital flows.

Many of the public policy statements were expressed by the Secretary of the Treasury, who served as chairman of the President's Economic Policy Board during the period or by his Assistant Secretary for International Affairs. 1/ The President did, however, speak directly to foreign investment in development of energy. He said at the November 1975 International Economic Summit Conference in Rambouillet, France that "the U.S. welcomed and encouraged foreign investment in the U.S. to develop domestic energy supplies "(19). He added to our investment acceptance policy in sta-

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1/ Throughout this section, press interviews with the Secretary of the Treasury and other Government officials are referenced since the direct questioning tended to draw out the more precise policy position statements. In addition, several years is generally required before more scholarly research is published on an economic development as major as the sudden oil price increase.

ting that export guarantees would be considered for a portion of the output generated from the new investment. The President's welcome was essentially limited to investment in new facilities and sources such as synthetic fuels, oil shale, coal gasification, etc., and not to investment in existing wells and mines.

The policy concerns started with the realization that some OPEC countries would generate very large surplus holdings. The initial U.S. position as expressed by the Secretary of the Treasury was that the oil price increases were neither justified nor sustainable and would be rolled back possibly as far as the pre-increase level.2/ The administration had several months to pursue such a policy after the increase went into effect early in 1974 since payments on most oil were not due immediately upon leaving the OPEC countries.

The administration first observed that OPEC could not argue that the new higher price of oil is set by production costs. "The OPEC's by a quirk of geography possess the marginal oil supplies currently needed by the rest of the world. Foreign technologists found and developed the oil, foreign risk capital built most of the rigs, pumps, refineries, pipelines, and port facilities "(51). The administration also rejected the OPEC argument that their price policy aims to narrow the gap between rich and poor countries. The United States contended that the less developed nations would most keenly feel the fourfold price increase since they would be able to obtain less fertilizer, chemicals, and medical drugs as a result of spending more for oil and oil-derived products.

2/ Some analysts suggested that to obtain lower oil prices, the U.S. or other countries could consider physical takeover by force if necessary of the Middle Eastern oilfields, pipelines, and port facilities (15, 41, 55). If successful, this may have been a rather secure route to assuring future supplies and reduction in the likelihood of future export embargos to certain countries.

The staying power of the cartel was also questioned. In addition to cultural differences and major differences in the political systems and stages of development among the member nations, several of the countries were committing themselves to development expenditure levels that would require further rapid increases in the price of oil (34, 54). Should these countries have tried to increase prices much beyond those acceptable to Saudi Arabia, the cartel could have dissolved.

While acknowledging that the new finds of oil in the member countries of OPEC during the fifties and improved transport and refining technology helped to supply an increasing demand, the United States observed that the size of the oil price increases would provide incentives for substantial work on alternative sources of energy (4, 16). The previous low prices for crude oil had not provided the necessary incentives.

Significant discoveries of oil were made in 25 to 30 other areas outside of OPEC members that could come into production in a short period. While not of immediate readiness, the administration argued that OPEC should consider the other alternative sources of energy in deciding about whether to hold to the initial large increase in price and to consider the alternatives when considering future price increases (19, 44). 3/

In light of these observations, one of the major efforts of the administration was to try to "weld" oil-consuming countries into a bloc that would reduce oil imports and accelerate development of alternative sources of energy. The aim was shrinking OPEC revenues enough to prod some of the member nations to

3/ By 1979, some of the other sources were coming onstream with others projected to come onstream over the next several years. These new sources were, however, coming onstream at the new higher prices and, given the world demand for energy, were not expected to cause prices to decline.

cut prices and thus dissolve the cartel (56). The United States later decided that an effective consumer group could not be formed. Given that Saudi Arabia is by far the largest volume exporter and has the most proven reserves of oil in OPEC, it has had a moderating influence on price increases. The United States has necessarily developed a close working relationship with Saudi Arabia for price-moderating influence as well as for political concerns in the Middle East.

Late in 1974, the administration apparently recognized that the price level for imported oil would likely stay at the new higher levels (55). The problem then became the choice of mechanisms to use for recycling the money. In an interview in November 1974, Treasury Secretary Simon said, "There are all kinds of mechanisms for handling the recycling problem: the Eurodollar market, the commercial banking system, bilateral aid from one country to another, organizations like the International Monetary Fund and the World Bank, and even loans and direct aid from the oil producer nations. The U.S. Government will not underwrite the recycling of the flood of petrodollars but the exporters will have to do it themselves" (72). Simon also suggested that the oil producers should invest through various money markets in the industrial countries. He said that when the banks have taken all they can handle, OPEC can buy U.S. Government securities and, later, long-term corporate bonds and even common stocks.

Four of the alternatives were discussed with analysts and reporters. First the OPEC Governments were encouraged to make loans and grants directly to the countries that imported oil at the higher prices but without the foreign exchange earnings to pay for it. A second alternative was for the United States to encourage the OPEC members to make loans to the International Monetary Fund which in turn could make loans to the various nations. One of the arguments for using the International Monetary Fund to recycle and loan to other countries was that the fund could require Governments of other countries, as part of loan terms, to impose expenditure restraints and to restructure economic priorities.

A third alternative, apparently considered but not adopted, was for the U.S. Government to set up a special program to accept some of the surpluses, guarantee their repayment, and in turn make loans to other countries. A variation was considered where the U.S. Treasury would develop a special debt instrument for about $12 billion that certain OPEC members could invest in with the proceeds used to finance the U.S. Federal debt. This was not accepted by the OPEC members (15, 70).

When the first three alternatives appeared to be unacceptable to OPEC, the U.S. private banking sector began to accept deposits of the surpluses and re-loaning where they could. This activity was consistent with encouraging profit making in the U.S. private sector. The OPEC depositors received the same benefits as other bank depositors involved in international operations. Such banks are generally members of the Federal Reserve System and their operations are audited and reviewed. 4/

This alternative seemed to be readily accepted and worked satisfactorily through the first 2 1/2 years, according to an analysis by the International Finance Corporation, a World Bank affiliate (21). The analysis in mid-1976 stated that "private banking loans from U.S. and European Banks to the developing countries have become the single most important element in the flow of international resources to the major developing economies." The conviction developed that the balance of payments deficits of oil-importing countries had been financed more easily than was expected, in part due to the ability of U.S. banks.

4/ The Secretary of State recognized that the banking system could soon become overextended and proposed that a $25 billion "safety net" international recycling fund be established to help importing countries obtain energy loans to cover their oil deficits. This proposal was, however, neither fully developed nor implemented (53).

Total assets and liabilities of American banks' foreign branches rose from $78 billion in 1972 to $176 billion in 1976. The increase exceeded the rise in the domestic money supply in the 4-year period.

In a broader context, it appears that foreign loans made by the world's private banks increased from $100 billion in 1969 to $548 billion in 1976. Swiss banks accounted for $56 billion of the loans outstanding at the end of 1976, while French banks had $42 billion and German banks had loans of $22 billion. U.S. banks and their overseas branches were the largest single-country lenders with $207 billion. 5/ In turn, foreign deposits in U.S. banks and their foreign branches and in U.S. Treasury paper grew rapidly, from less than $60 billion in 1969 to $280 billion at the end of 1976.

5/ In 1969, U.S. banks loaned $27 billion to other countries.

APPENDIX 3

Policy Statements Regarding Inward Investment

A. Peter Flanigan's statement to the House Subcommittee on Foreign Economic Policy

The Chairman of the Council on International Economic Policy further amplified on the U.S. open door policy as follows: (13) We have offered foreign investors no special incentives to attract them to the U.S. and, with a few internationally recognized exceptions, have imposed no special barriers. Such a policy has been consistent with our overall dedication to free and fair international trade, nondiscrimination amongst foreigners, and encouragement of competition from all sources. It is also consistent with our obligation under the OECD (Organization for Economic Cooperation and Development) Capital Movements Code and is reflected in bilateral treaties of Friendship, Commerce and Navigation with most of our major trading partners. It also accords with the recommendations of the President's Commission on International Trade and Investment Policy (the Williams Commission) which noted in its July 1971 report that:

We endorse the traditional U.S. open door to foreign direct investment in the United States. The U.S. has much to gain from an inflow of foreign resources: new job opportunities, the fruits of foreign technology and know-how, and short-term balance of payments benefits. It is essential that we treat foreign investors in the same manner as we expect and press other host countries to treat U.S. investors."

Mr. Flanigan expanded on the policy and described the reasons for the policy as follows in the same testimony:

1. A policy that welcomes foreign investment in the United States is consistent with our overall efforts to promote an open, nondiscriminatory, and fair international economy. The world could retreat into the economic nationalism which led to a breakdown of the international economy in the 1930's. Any new restriction would not only be contrary to our overall policy of liberalizing international investment but would represent the very type of nationalistic policy that we are trying to dissuade other nations from adopting.

2. Foreign investment in the United States is not a significant factor when compared with the vast size of our economy. It has no significant effect on aggregate demand, aggregate employment, and the implementation of our macroeconomic policy. For example, at the end of 1973, foreign direct investment in the United States was around $16 billion and the growth in such investment in 1973 was only 2 percent of the amount spent in the United States on business plants and equipment. By contrast a recent study shows that the United States is responsible for 10 percent of the gross plant and equipment invested in the European Economic Community and 20 percent in the United Kingdom. In addition, foreigners do not control any sector of our economy as is the case in many other nations.

3. The size of foreign investment in the United States has, over the past decade, fluctuated considerably. During the period from 1962 to 1972 it averaged $675 million and varied from a low of $257 million in 1966 to a high of $1.4 billion in 1970. This was followed by a sharp drop to under $400 million in 1971 and a rise to just above $700 million in 1972. Estimates for 1973 range from $2 billion to $2.5 billion. Therefore while there was a sharp increase in 1973 over 1972, we should not make any dramatic change in our traditional policy on the basis of data for 1 year alone.

4. We already have substantial power under existing laws to take necessary action should foreign investment threaten our national security. For example, Defense Department regulations make it virtually impossible for a foreign-controlled firm to engage in classified defense work. As an example, you only need to look at the offer of purchase that was published in connection with the recent foreign bid to take over Ronson which pointed out the problems that a foreigner acquiring a firm would run into under the Federal Aviation Act, the Communications Act, and the Department of Defense's regulations. The President has the power during a war or in emergency under the Export Administration Act to prevent a drain of our scarce raw materials.

5. There is a real danger that a more restrictive U.S. policy would have a major effect on the investment climate in nations where our companies have very substantial interests. U.S. investors have between $95 billion and $100 billion in direct investment abroad which means that the United States owns 6 1/2 times as

> much of other countries assets and resources as foreigners own of our own. To look at it another way, U.S. companies own about 5 percent of total corporate assets in Europe while European corporations own about one-fourth of 1 percent of U.S. corporate assets. Any restrictions by the United States could result in a serious deterioration in the way our companies are treated abroad.

Flanigan described the exceptions to the open door policy as follows:

> We have legislation which imposes restrictions on foreign investment in certain sectors of the economy which have a fiduciary character, which relate to the national defense or which involve the exploitation of natural resources. The most important sectors affected are coastal and freshwater shipping, domestic radio communications, atomic energy, domestic air transport, exploitation of Federal mineral land and hydroelectric power. The restrictions are generally accepted internationally as appropriate exceptions to national treatment and are incorporated into most of our bilateral treaties. Additionally, several States impose restrictions for foreign investment, particularly in banking, insurance, and land ownership.

B. Gerald Parsky's statement to the Senate Committee on Foreign Commerce and Tourism

Speaking for the Administration, assistant Secretary of the Treasury, Gerald Parsky frequently encouraged that "the U.S. policy should be aimed at luring, not discouraging, investments in the U.S. as a means of returning home some of the dollars being spent on oil purchases" (38). This takes two dimensions; (1) encouraging the Persian Gulf countries to invest directly in the United States and (2) encouraging Persian Gulf countries and U.S. businessmen to work together in developing those countries. The increased movement of foreign money into U.S. Treasury paper and other American assets however, can create some problems in the world economy. For instance, the money may have been used in Europe, Japan, and the Third World to stimulate economic recovery from recession. While the U.S. economy directly benefited from the investment, it is also dependent on economic stability and growth in other countries or vulnerable to recessionary trends in other economies.

C. James Needham's statement to the Senate Committee on Foreign Commerce and Tourism

The chairman of the New York Stock Exchange in reacting to interests that would have had the United States remain ~~neutral~~ or even discourage foreign investment stated that economists employed by the Exchange foresaw a potential $650 billion capital shortfall between 1975 and 1985 (32).

> The savings potential in the U.S. economy through 1985 from all domestic sources is estimated at something over $4 trillion but over the same period, capital demands are likely to reach a cumulative total of around $4.7 trillion. Thus, there will likely be a shortfall of about 13 percent of the average demands for funds over the period. If this gap is not filled it will have a particularily severe impact on domestic business activity, on the position of the United States in international economic affairs and ultimately on the standard of living and quality of life in the United States.

Economic Concepts and Effects of the Policy

The neutral or open door policy of the U.S. toward foreign investment follows the general policy of free and competitive world trade and investment as well as a competitive internal economic policy. The U.S. policy follows the principal of comparative advantage: Countries and regions specialize in production and distribution of goods and services for which they have the greatest relative advantage, i.e., lowest opportunity cost.

The principle of comparative advantage, however, has limitations where sovereign nations seek to further their own economic, political, military, and national security interests. Many potential impediments are created by national laws and regulations as well as by international agreements. Some countries have centrally planned and administered economies and engage in limited world trade. They may limit their trade and aid to other countries with similiar outlook. However, given their need for technology and agricultural products in years of low production and subsequent foreign debt, they have need to further their international trade.

Sovereign nations have various import, export, and banking laws that can be used, modified, or supplemented as conditions change. The large increase in oil prices and subsequent smaller increases created a disequilibrium that could be expected to cause various countries to react with different policies.

Given the many changes from the oil price increases, a general equilibrium framework is useful as a guide to description and analysis. The starting premise is a world economic system in equilibrium in trade, internal country production, and rates of economic growth. There was disequilibrium in the real world in the sense that there was a large surplus of U.S. dollars. Nonetheless, the oil price advances for most countries increased uncertainty over economic stability; particularly in the more developed countries, which were major world trade participants. The resulting increase in income for a few countries and the increased uncertainty for other countries changed equilibruim conditions. These changes influenced both expansive and restrictive economic processes.

The increased foreign exchange income to OPEC members meant that they were able to procure goods and services not previously available in their own countries. Countries that purchased oil and in customary or increasing quantities were worse off if they could not increase their exports or attract inward foreign investment of a sufficient magnitude to cover added import costs. If they incurred balance of payments deficits, they needed to compensate for them from previously accumulated balances or, if not available, to reduce imports or to increase borrowing. Without internal adjustments to reduce dependence on imports or to increase exports, oil-importing countries could expect the costs of goods and services to increase. The added costs would further add to the inflationary bias that was established as part of the general equilibrium state in world trade prior to the oil price increases.

Increased inflation may arise from business firms operating at less than full capacity which is in turn associated with decreased employment or, in some situations, with firms operating at full capacity but still unable to meet consumer demand. Should oil-importing countries be unable to decrease imports or to increase exports to meet import costs, they would probably realize higher rates of unemployment and inflation.

The countries that are leaders in world trade generally have the most highly developed banking systems and are the major world lenders. If the oil-exporting countries were unable or unwilling to lend to countries with balance of payments deficits, the leader countries might be expected to do so to maintain a high level of world trade. If the level of borrowing became too great after the large oil price increase, some balance of payments deficit countries could be expected to default on principal and interest repayments. This could create problems in the international banking system and subsequent problems in the home countries of the large international banks unless the banks were successful in their customary policy of geographically diversifying their risks as lenders.

Under a system of perfectly functioning floating currency exchange rates, the prices of goods and services in the export market should decrease for countries with balance of payments deficits. If the international prices for a country's goods and services decline and domestic demand decreases, inflation and unemployment rates should decrease unless there is considerable structural unemployment as was the case in the United States.

However, other countries will also try to increase exports to improve their own economic position. Such attempts can foster three effects. First, "trade wars" can develop and export prices drop so that individual exporting countries are not as well off as they would have been. Export subsidies may be used by individual countries in an effort to increase exports which adds to trade "wars" waged by individual firms. Secondly, individual countries may choose to impose import tariffs or embargos to decrease imports. Both of these actions, either singly or together generally depress world trade. Countries then require internal restructuring to decrease personal consumption and to increase the development of natural resources, export of manufactured goods etc., if they are to improve their economic position. Such restructuring aids the establishment of a new equilibrium where floating exchange rates again effectively function. Third, competition restructuring could occur to cheapen exports thereby violating the initial assumptions that exchange rates will bring trade into equilibrium.

APPENDIX 4

Legislative Proposals

The projected size of the OPEC surplus, the desirability of investing in the United States and possible secondary effects of other countries investing in the United States were associated with numerous Federal legislative proposals in 1974-75. The World Bank projections on the size of the surpluses were used in Senate Commerce Committee hearings to encourage the establishment of a U.S. review agency on foreign investment in the United States. Such an agency would have apparently reviewed investments in the food system and agriculture as well as in all other industries. Senator Howard Metzenbaum observed, in widely publicized testimony, that, based on June 24, 1974, closing prices on the New York Stock Exchange, $46.8 billion or about 75 percent of the $60 billion surplus would have been sufficient to acquire 51 percent of the voting stock in 11 key American corporations (63). 1/ He also observed that it is usually possible to purchase a much smaller percentage to gain control and thus the surplus could have probably bought control of an additional 10 key U.S. corporations. 2/ (Saudi Arabia publicly denied any intent to buy up U.S. companies). Metzenbaum

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1/ The Senator included the following companies in the possible purchase list: International Telephone and Telegraph, General Motors, International Business Machines, United Airlines, U.S. Steel, Xerox, General Dynamics, Lockheed, Boeing, Dow Chemical, and American Telephone and Telegraph.

2/ The additional companies included: Texaco, International Harvester, Alcoa, Campbell Soup, International Paper, Kennecott Copper, Goodyear, Singer, Colt Industries, and Howard Johnson.

concluded by calling for an analysis of the effects of the sudden and massive shift of money to OPEC, a phenomenon, he said, without precedent in the world of commerce.

To further illustrate the size of the OPEC surplus, and potential purchasing power, the $60 billion surplus represented about one-fourth of the calculated value of all U.S. farmland in 1974. Using conventional financing of one-fourth equity and three-fourths debt, the surplus would have been enough to purchase all U.S. farmland. This of course ignores the predictable impact of capital investments of this magnitude on increasing asset prices.

Since introduced bills often contain several objectives and thousands of bills are introduced each year, it was not possible to enumerate all that related to foreign investment. Of those bills that were reviewed, no particular pattern was observed between content concerns of the House and Senate.

This section gives an indication of the intent or objectives of those bills that were clearly identifiable as dealing with foreign investment. Some of them advanced to the subcommittee hearing stage. 3/ Some overlapped in general objectives while specific provisions were often different. Several would have made major alterations in the Nation's traditional open door policy toward foreign investment. Most of the bills would have had some impact on agriculture and the food and fiber system.

Banking and Shipping:

To impose moderate controls on foreign banks in the U.S.

3/ None of the bills, however, advanced though Congress to become law. Most were strongly opposed by the Department of the Treasury, which was concerned with not discouraging OPEC from investing in the United States, to help with our balance of payments, and to fund the increasing Federal debt.

To amend the 1961 Jones Act Shipping Law to ban more than 25-percent foreign ownership of the U.S. fishing fleet.

To impose strong Federal curbs on foreign banking in the United States.

To restrict foreign bank activities in most cases to those permitted to domestic banks.

Reporting, Registration, and Prior Approval: 4/

To require a petrodollar reporting system to track worldwide movements of surplus dollars from OPEC.

To require registration of all foreign investors in the United States, to provide strong enforcement of registration requirements, but not to ban alien holdings.

To set up a Foreign Investment Control Commission to bar alien ownership in areas deemed vital to U.S. economic security or national defense.

To register, review, and restrict foreign investment.

To require review of all foreign investments in U.S. natural resources and require notification and prior U.S. Government approval of proposed purchases.

To screen foreign investors in publicly traded U.S. companies worth more than $1 million in assets. Purchases of more than 5 percent of such firms would

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4/ Many of the bills authors' noted the much tighter prior approval and restrictions that other countries apparently have on foreign investment. Some bills were heavily influenced by the concerns of the legislators' constitutents; public reactions to foreign investment tends to vary by industry, geographic area, and country of origin. Several State development agencies have offices in other countries where they aggressively seek foreign investment.

have required Federal approval if deemed against the national interest.

To set up a Foreign Investment Administration to report quarterly and annually on alien investment and disclosure of all foreign holdings of: (1) 5 percent or more of any publicly traded company, (2) 10 percent or more in privately held U.S. firms, (3) real estate worth $50,000 or more, and (4) to require disclosure of foreign purchases of U.S. Government securities exceeding $1 million. Strong enforcement powers were proposed in order to compel reporting.

Percentage of Alien Ownership:

To ban more than 49 percent alien ownership of U.S. firms with 100 percent ban on alien holdings in firms involving national security.

To ban aliens from ownership of U.S. companies within defense or energy industries.

To bar aliens from owning more than 5 percent of U.S. corporations.

To bar any petroleum-exporting country from gaining controlling interest in a U.S. oil production, refining, or distribution facility.

To ban foreign government investment in such areas as U.S. defense and public media and to require the U.S. Government to pass on all impending foreign investment in U.S. companies or real estate over a certain size.

Regulatory:

To establish a Foreign Investment Regulatory Commission to control alien ownership of U.S. firms concerned with U.S. economic independence.

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